

# Public Utilities

*FORTNIGHTLY*



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## The Transportation Crisis

PART I.

How government planning can solve the problems confronting the country in the transportation field. Objectives of a planned economy for transportation.

By KARL KNOX GARTNER

**T**HAT conditions in the transportation industry are rapidly reaching a crisis, is common knowledge. Crisis means change, either for better or for worse. Is government going to stand by and allow the private interests immediately involved to destroy one another in a useless competitive struggle that must ultimately impair the service upon which the public depends, or is the situation to be met with an aggressive governmental attitude determined to take the matter in hand and enforce peace and divert the energies now employed in a destructive competition into channels of rehabilitation and constructive competition?

No governmental regulation as yet has been found that is a satisfactory substitute for competition. Competition is, indeed, as has been said, "the life of trade" but competition to be stimulating must be fair. The primary contribution that government can make in the field of transportation is to referee the game and make the competition between the players a fair competition.

The crisis confronting transportation today is a condition that has come about chiefly because the struggle between the competing forms of transportation is not being refereed and consequently the competition is not a fair competition.

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**T**o further call upon the vernacular of the gridiron, it might be said that government's obligation to transportation does not end with its function as referee but comprehends also somewhat the function of coach. The duty of government is not fully discharged by simply specifying curbs and enforcing the rules laid down, but it also comprehends the more fundamental function of assistance toward the better accomplishment of the common goal; namely, the best, that is, the most satisfactory transportation service at lowest possible cost.

Government, as coach, must direct coördinations that will eliminate wasteful transportation within each form of transportation and as between the several forms to the end that better and better transportation at lower and lower costs can be attained. Transportation because of its nature as a public utility has the right to expect and to demand that government discharge its function of coach as well as its function as referee.

Not only is it imperative that government discharge its dual obligation in the interest of peace-time commerce but it is demanded, as well, in the interest of the national defense.<sup>1</sup>

**I**N formulating any plan of regulation for interstate transportation, primary recognition must be given to the fundamental right of the public to use the most suitable form of transportation at the lowest relative cost made possible from time to time by the development of novel methods of

operation or the invention of new means of transportation. The permanent enjoyment of this fundamental right depends upon the maintenance of a fair competition between the competing forms of transportation as well as between the competing units in each form.

The problem of regulation under existing conditions under which we have truck lines, bus lines, air lines, pipe lines, boat lines, as well as railroads, is a very different matter from what it was in 1887 when the Interstate Commerce Commission was organized and when for all practical purposes we had only the railroads. Then the problem was to regulate a monopoly in so far as form of transportation is concerned, whereas now, the problem is to maintain the freest possible competition, but a competition that will be made a fair competition through stabilization to be effected within each form of transportation and as between the several forms.

**S**TABILIZATION to the end of a fair competition becomes, therefore, the primary objective of any planned economy for transportation. Stabilization must be achieved within each form of transportation by a system of published rates and required adherence thereto until legally changed, uniform accounts, statistical reports showing operating costs, and a prohibition against the performance of transportation below the cost of the lowest cost operator in the particular form or agency of transportation operating between any particular points involved.

The system of published rates and required uniform adherence thereto,

<sup>1</sup>For a more complete discussion of these introduction propositions, see author's Address before the American Bar Association at Milwaukee, Vol. XIV, No. 10, PUBLIC UTILITIES FORTNIGHTLY, p. 635.

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uniform accounting, and statistical reporting that the railroads have been subject to since 1887 have stabilized the railroads, and the wholesale discriminations theretofore practiced through rebating and rendering of special services and giving of passenger passes, were ended with the enactment of the 1887 Act. The same stabilization for truck lines, bus lines, boat lines, and air lines, can be achieved in no other way.

Concurrently with this stabilization within each form of transportation, there must be stabilization between the different forms of transportation, if the competition between railroads and trucks, or between railroads and boat lines, for example, between any two given points, is to be fair.

**E**ACH form of transportation should make the same relative contribution to the standard of living in the particular territory in which they operate through wage scales that are the same for the same kind of services. The truck lines or boat lines, in the example, should pay as high wages to their employees as the railroads, and vice versa. Otherwise there can be no stabilization as between the three, and their competition one with the other cannot be a fair

competition. To that end all labor engaged in interstate transportation must be unionized, under governmental supervision.

The only other avenue to stabilization as between the various forms of transportation is by means of adjustments taking the form of tolls. Suppose the government should undertake to furnish a particular railroad a right of way between two given points and then maintain the right of way so that the railroad was required to have no capital investment in right of way and incurred no expense for maintenance of way, and suppose there is another railroad operating between the same two points competing with the first railroad for the same traffic, that had to provide its own right of way and maintain it, would the competition between these two railroads be a fair competition from the standpoint of the second railroad when the government was playing Santa Claus to the first railroad by furnishing it with its right of way and keeping it maintained in perfect operating order?

**S**UCH is the exact situation existing today in so far as competition between trucks and railroads, busses and railroads, boat lines and railroads, and to some extent air lines and railroads,



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is concerned. The highways upon which our trucks and busses operate were all built and are all maintained at huge governmental cost. The waterways upon which our boat lines operate were developed and are maintained and kept safe and protected at huge public expense. Our airways are provided in many instances with governmental aids through the weather bureau, maintenance of inspection bureaus, and otherwise, which facilities they would have to provide at their private cost, which aids are essential to their actual operation. But the right of way that the railroads require, they had to provide with private funds and they have to maintain at their own expense.

Is the competition between the railroads, on the one hand, and the trucks, busses, boat lines, and air lines, on the other hand, under these circumstances, a fair competition? It is urged, of course, that many of our railroads received government aid in the form of huge land grants that contributed largely to the cost of original construction. It is also a fact that trucks, busses, air lines, and any boat lines operating on petroleum fuel that is subject to tax, pay fuel taxes, as well as license taxes, that in the aggregate amount to huge sums that, it is contended, if properly directed, would build, maintain, and refund the cost of original construction of all highways they use.

**O**N the other side it is contended on behalf of the railroads that if these other forms of transportation contributed to the general standard of living of the territory in which they operate to the same extent that the

railroads do by paying wages as high as those paid railroad labor, and if they paid tolls equivalent to the use they make of the public funds employed in the highways that they use, the unit cost of transportation performed by these other forms of transportation would be higher than the unit cost by railroad.

This question can never be accurately answered until a system of uniform accounting and statistical reporting for these agencies of transportation is established similar to that required of the railroads which will reveal the basic facts. And it is here that a bureau of research takes its place as an important element in any planned economy. Such a bureau must first set up the system of accounting and statistical reports that will produce the facts required and, thereafter, it will carry on a constant research of the reports made to determine the various facts as to relative costs which the statistics reported should reveal.

Whatever the fact thus demonstrated may be, deficiency, if any, can be adjusted by the imposition of tolls assessed against traffic moving via these other forms of transportation in competition with the railroads.

**W**HEN these alleged inequalities due to inadequate wage levels or inadequate reimbursement for private use of public highways are thus neutralized, and stabilization is achieved within each form of transportation through published rates, uniform accounting, and statistical reporting, all forms of transportation and all units within each form of transportation, will be brought to a condition of fair





### Public's Right to Best Form of Transportation

**"I**N formulating any plan of regulation for interstate transportation, primary recognition must be given to the fundamental right of the public to use the most suitable form of transportation at the lowest relative cost made possible from time to time by the development of novel methods of operation or the invention of new means of transportation. The permanent enjoyment of this fundamental right depends upon the maintenance of a fair competition between the competing forms of transportation as well as between the competing units in each form."

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competition one with the other and not until then. With all such artificial inequalities removed or neutralized, the prosperity of every carrier would then depend upon the character of service it offered the public and the efficiency of operations to produce lower costs. No carrier would be able to offer rates lower than the cost of operation of the lowest cost operator of its kind in the particular area or between any two given points. Any carrier that is unable to survive under such a condition of fair competition will simply have to travel that bankruptcy or receivership route that any other unsuccessful business must go, but all carriers would be protected against any such inefficient or irresponsible competitors cutting rates be-

low cost of service in a ruthless competition for business.

**A**s long as the patrons of the carriers are being afforded the form of transportation that is most suitable at a level of charges predicated upon the cost of operation of the lowest cost operator of the particular form of transportation that is desired in the given instance, there can certainly be no just complaint by the public against the stabilization contemplated under such a planned economy where each form of transportation is in turn competing with other forms and no one enjoys a monopoly.

Until relative costs of service of the respective forms of transportation are ascertained pursuant to the system of

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stabilization outlined, it is of no present interest to consider what steps, if any, might be warranted in subsidizing any particular form of transportation in the interest of national defense. It will be time enough to consider such matters if and when, pursuant to the stabilization contemplated, it is proven by relative costs of service and other tests that the railroads, for example, have been rendered obsolete by newer forms of transportation and cannot be themselves modernized to meet the new competition of trucks and busses and must be subsidized if they are to survive.

**O**BVIOUSLY the stabilization will depend to a certain degree upon the ascertainment of operating costs and these costs reduced to a unit basis will depend upon volume of movement. Volume of movement by any particular form of transportation between given points may in turn depend upon the relative level of charges as compared with those of competing forms of transportation. Here again until the facts are developed any attempt at solution would constitute mere prophecy. Trucks and boat lines are operating now in competition with railroads on a basis of relative costs and charges and volume of traffic that might be taken as basic and statistical reports based on a year or two back might be required, if need be, in order to arrive at reasonable averages based upon actual experience in operations.

Again it is apparent that cost of service must be in part, at least, based upon arbitrary allocations to particular traffic of certain general costs common to all traffic handled by a par-

ticular carrier. But it must be equally obvious that as long as the allocations are made on the same basis as to all traffic and as to all carriers, the resulting costs must be absolutely accurate as revealing the relative costs of competing carriers.

Anyone who says that comparative costs of transportation for different kinds of freight cannot be accurately ascertained is simply unfamiliar with the subject of cost accounting. All carrier accounts can be so reformed that by arbitrary allocation of expense, where expense cannot be directly assigned, as accurate cost figures as are necessary can readily be obtained.

**C**ONCURRENTLY with stabilization, another of the immediate objectives of a planned economy for transportation in this country must be a coördination of Federal expenditures for highways, rivers, and harbors development and maintenance, and power development, so that all such expenditures will be made according to some concerted program of national defense and needs of commerce, and be planned in advance and executed under a continuing program of public works to be actively pursued in direct relation to the general condition of unemployment. The program should be projected upon such a scale and it should be so coördinated that there is always in prospect huge public works already planned on which millions of men can be engaged during periods of general unemployment, upon works that are an integral part of a great national plan for the development of the transportation machine in conformity with the interests of the national defense as well as the re-

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quirements of peace-time commerce.

The Federal government, for example, would not build railroad lines to supplement those already operating where such construction was required in accordance with the national plan. But the project would all be worked out with the private railroad management concerned, with schedules and all plans laid to prosecute the development when unemployment required, and to that end the government would advance the necessary funds through a bureau operating under the transportation authority functioning similarly to the RFC.

**S**UCH a program of coordinated development and expenditure could be accomplished by empowering the transportation authority accordingly and making the head of such authority politically independent as will be hereinafter discussed. And by making such expenditures subject to visé and approval by such authority and making the executive head thereof a member of the Council of National Defense.

Another objective must be the elimination of waste in transportation.

This can be accomplished by coordination of operations through pooling, rerouting, and consolidation arrangements.

The stabilization as between the railroads and all other forms of transportation as heretofore discussed, and the realization of the other objectives of any planned economy that has any hope of success, demands that all forms of transportation be subject to the required regulation by a single authority that will have the same powers of regulation as to all forms. There can be only one referee in any game.

What form this transportation authority shall take is itself of immediate importance in the operation of any system of planned economy. Shall it be by government ownership? Shall it be a Secretaryship in the President's Cabinet? Shall it be the Interstate Commerce Commission without change in its present organization and method? Or shall it take the form of an independent Transportation Administrator supplemented by a Rate Tribunal?

These are the questions that will be considered in the subsequent articles of this series.

*The second instalment of this series of three articles on "The Transportation Crisis" will appear in the following issue of this magazine out January 31, 1935.*

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**"P**UBLIC regulation is proper and can work justice only when applied with equality to all competing in any industry. Public regulation is not proper and cannot work justice to any industry if the government engages in competition with the industry which it regulates. Public regulation is limited in proper reason and proper purpose to the betterment and protection of service. It has no proper function to perform as a means of taking the property of one and giving it to another or as a step in the equalizing process for the redistribution of wealth. Those engaged in public service like all others should cheerfully submit themselves to public needs growing out of public emergency, but they should not be seized as instrumentalities of emergency relief under the pretense of regulation of commerce."

—E. E. McINNIS,  
General Counsel, A. T. & S. F. Ry.



## "Yardsticks"

*Ventures in business by governments that  
have proved uneconomical*

AN examination of the operative results of publicly owned steam railroads, electrical plants, telephones, street railways, the Post Office, and the Panama canal, does not, in the opinion of the author, show financial or service advantages to the people over business conducted by private enterprise. Advantage of private initiative in the conduct of business in the development stage.

By J. H. PORTER

FORMER MEMBER OF THE MISSOURI PUBLIC SERVICE COMMISSION

THE dictionary gives the definition of "yardstick" as "a graduated measuring stick a yard in length" and it also gives as one of the definitions of "measure," "any standard of criticism, comparison, judgment, or award." This word, "yardstick" has lately come into popular usage particularly in the field of public utilities.

The government of the United States is in the process of spending hundreds of millions of dollars with the avowed purpose of establishing, amongst other things, "yardsticks" to measure electrical rates and service and to furnish a base to which it may compare the rates and services of private electrical utilities. This policy has given little, if any, consideration to governmental experience in the past in the ownership and operation of utilities. It seems to proceed on the theory that in the electrical field there

is some strange alchemy which changes men and governments so that features which characterized all former governmental operations will not be repeated in the future.

Many of the general public are not familiar with the examples of public ownership both here and abroad and are prone to accept the sounding generalities and the glittering promises of a better era without a study of the actual results of government ownership and operation of utilities as shown by the official reports of the governmental bodies involved.

STATISTICS do not make entertaining reading, nor can they be rolled from the tongue in moving speeches. It is much easier to say "experience has proven" than it is to give the locale of the experience and definite figures as to what was proved. A study of the statistics of "yardsticks" which

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have been in existence for many years should help the United States in determining whether it wishes to adopt public ownership and operation of all utilities without more positive proof than mere assertions as to its efficiency and economy.

The attacks upon privately owned utilities and the cry for public ownership and operation are not of recent origin. For many years these attacks have been more or less futile but the economic depression of recent years has caused the public to seek everywhere for relief from the financial strain and to be more receptive to the claims for the superiority of public ownership. The recent developments in the utility field which have shown that some of the most prominent men in the field were, if not actually corrupt, at least not the supermen as advertised, has added to the discontent.

**T**HE public has drawn no distinction between the operating company which in most instances was subject to a governmental regulating body and the holding company which was subject to no regulations. This bitter feeling has been encouraged both by the politician seeking votes and by the machinery companies which seek to profit by the change. In addition many honest and sincere men have been swayed by a desire to punish those who have profited by corrupt practices and have urged the adoption of public ownership as a means of curbing these dishonest men.

No one can deny that certain utility men should be punished. The same might be said for certain politicians, certain bankers, certain doctors, and a host of others. However, few have

studied the examples of public ownership with a desire to find if they have been economically successful and if the proposed change is the best method of curing the alleged evils of private ownership.

The extremists would have the government take over and operate all public utilities. The effect of this cannot be judged by small isolated plants.

**I**T is possible that some publicly owned utility plants because of their inability to connect profitably with other larger plants and which through fortuitous circumstance may have in charge at the time of investigation a manager of outstanding ability, may show savings over similar plants privately owned. However, in order to secure a true picture of the probable effects of their plans it is necessary to study plants which are widespread and which give the same problems in managing as would be found should the government attempt to run all utilities.

Perhaps the first utility to feel the effects of this attack was the railroads. The late William Jennings Bryan, upon his return from Europe and as a prelude to his third unsuccessful campaign for the presidency of the United States, advocated the government ownership and operation of railroads and pointed to the governmentally owned railroads of Germany as an example of its efficiency and economy. Following this attack there have been others which have singled out first one utility and then another but in recent years these attacks have centered principally on the electrical industry.

**A** STUDY of the records in the government ownership of railroads



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does not furnish the example of economy and efficiency which the public ownership school would desire. At the time that Mr. Bryan was praising the German railroads, the shipper on these lines was paying an average of 13 mills per ton-mile for freight hauled as shown by the reports of the Prussian Minister of Railways. According to the reports of the Interstate Commerce Commission for the same period the shipper in the United States paid an average of  $7\frac{1}{2}$  mills per ton-mile for the same service.

This difference prevailed despite the fact that the German state-owned railroads paid only a small local tax which was less than twenty per cent of the taxes paid by railroads in the United States, and despite the further fact the average annual railroad wages per employee in the United States were over fifty per cent higher than those of Germany. No other state-owned railroads of this period had rates as low as Germany.

The state-owned railroads of Germany suffered from other comparisons. At this time Duisberg and other German cities were complaining bitterly that rates were such that Prussian towns were favored. Dr. Benmer, editor of *Stahl und Eisen*, calculated that the transportation charges in England were 10 per cent of the total cost of producing iron

as against 23 per cent in Germany.

**I**N 1909, the German Centralverband, numbering representatives of the largest industries of Germany, protested that while private companies were reducing railroad rates, the Prussian government was raising them. The enormous profits supposed to have been made by these railroads shrink measurably if interest on the railway debt at the usual governmental rate of approximately 3 per cent be charged against the operating revenues. Chaotic conditions in post-war Germany has made the picture even worse.

Other state-owned railroads have not fared better in the economic sense. The New Zealand Official Year Book for 1934 shows that the New Zealand State Railways has had a deficit for each of the last five years, this amounting in the fiscal periods 1931-1932 and 1932-1933 to 1,383,472 pounds and 1,380,111 pounds respectively. In Canada, the Canadian National Railways have been a constant drain on the national purse and its deficits form one of the serious problems in balancing the Dominion budget. The Canada Year Book for 1933 shows that there were deficits of \$73,733,692, \$99,275,680, and \$101,335,074 in the years 1930, 1931, and 1932, respectively. Preliminary re-



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ports indicate a much larger deficit for 1933.

THE government investment in the railways as of March 31, 1932, was \$390,787,290, and the cumulative deficit at the end of 1932 was \$565,756,072, which when combined makes a staggering total that the people of Canada have paid for the ten years' control of approximately 24,000 miles of railroad. These examples which could be duplicated in almost any instance of public ownership of railroads are strong evidence that there is no magic in government ownership which will bring economic and profitable operation. In times of stress they suffer even as privately owned railroads and when the railroads of the United States were reporting profits these lines were showing an operating loss.

It is when other features of the operation of the privately owned railroads of the United States are considered that the picture for public ownership becomes much less bright. The service of American railroads has become standardized and is the equal if not superior of any in the world. How long would the people of the United States bear with the expense and delay of transferring goods from one car to another at every state border as is necessary in the Commonwealth of Australia because of changes in the track gauges of the publicly owned railroads? The wages of the railroad employees of the American railroads are the highest in the world.

IT does not detract from this statement to say that living conditions are better and cost more in the United

States because these conditions are found in a country where private ownership is the rule. Air brakes and many other features which have added to the safety of travel by rail were developed in the United States. Air conditioning and other aids to comfort are becoming a commonplace on its trains. Many lines are now experimenting with lighter and faster trains to lessen the time of reaching destinations.

It is true that many of the railroads were assisted by land grants from the government but private capital took the chance that these lands would ultimately repay it for the risks that it assumed. Most of the railroads were built without subsidies and today with about one seventeenth of the globe's habitable area within its borders, the United States has one third of the railroad mileage of the world.

Railroads are one of the principal utilities wherein government ownership has been tried on a large scale. However, the telephone industry is likewise publicly owned in many countries and is another yardstick with which to measure public ownership.

IT would naturally follow that if there were virtue in the public ownership theory, the citizens of a country which owned its telephone systems would be large users of the service. The official governmental figures for 1933, however, tell a different story.

In the United States where the telephones are 100 per cent privately owned there are 14 telephones per each 100 of population. Canada with 83 per cent privately owned and 12



### United States, Leader in the Telephone World

**"I**t never has been seriously contended that the telephone service of the United States was not superior to most systems and the equal of any. Because of varying conditions in each country, . . . it is impossible to make an accurate comparison of rates. However, the United States has maintained its leading position in the telephone world for the last forty years and it is safe to assume that this would not have been done if rates had been unreasonably high."

telephones per each 100 population is in second place. In third place is New Zealand which is 100 per cent publicly owned and which has 10 telephones per each 100 population. Closely following New Zealand in fourth place is Denmark with 95 per cent of its telephone systems privately owned and with approximately 10 telephones per each 100 population.

In these four countries is found 52.9 per cent, 3.8 per cent, 0.5 per cent, and 1.0 per cent of the total telephones of the world respectively. There is also in the United States 70.14 miles of telephone wire per 100 population, in Canada 48.33 miles, in New Zealand 39.04 miles, and in Denmark 31.49 miles. Three out of the first four telephone systems of the world are privately owned. They render service to more people and have extended their lines farther to reach the public than the systems publicly owned.

**T**HE figures for the countries as a whole are matched by the figures for the larger cities of the world. The number of telephones per each 100 population are as follows: San Francisco, 36.49; Washington, 33.29; Stockholm, Sweden, 31.83; Denver, 29.67; Toronto, Canada, 25.62; Chicago, 23.62; New York, 22.16; Zurich, Switzerland, 19.48; Copenhagen, Denmark, 19.01; Paris, France, 14.97; Berlin, Germany, 11.07; Auckland, New Zealand, 10.01; and London, England, 8.84. The systems are also publicly owned in Sweden, Switzerland, France, Germany, and England.

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ble to make an accurate comparison of rates. However, the United States has maintained its leading position in the telephone world for the last forty years and it is safe to assume that this would not have been done if rates had been unreasonably high.

**T**HE United States has but one fifteenth of the population of the world and yet it has over fifty per cent of the telephone systems. Is it not fair to say that measured by this yardstick, the telephone industry has thrived more and has given more service to more people under private ownership than under public ownership?

It is not, however, in the fields of railroads and telephony that the present-day public ownership advocate makes his greatest claims. Today the electrical utilities are under constant attack and the demand for municipal and state ownership of the facilities which generate and distribute electrical energy is heard on every side. No doubt there are certain localities where public ownership has proved beneficial but these isolated examples do not prove the case and the answer must be found from a study of all plants and conditions.

A favorite example of the public ownership advocates has been the Hydro-Electric Commission of Ontario and the low rates enjoyed by the domestic consumers of the territory served by its plants. These rates have been compared to those of many communities in the United States to the disparagement of the latter. No comparison is made as to the relative conditions under which the electricity is produced and distributed.

**T**HE Ontario group has the most perfect set-up imaginable, that is, the hydroelectric development of Niagara Falls. It was not necessary to go to some remote section of the country where land for the basin would be cheap nor was it necessary to build an expensive dam. This ideal combination of natural advantages lies in the center of their heaviest load. Despite these natural advantages the Ontario plants suffer when compared to similar plants privately owned and operated in the neighboring Province of Quebec.

In early 1934 the Dominion Bureau of Statistics, Transportation and Public Utilities Branch, issued its "Census of Industry, 1932—Central Electric Stations in Canada." This census shows that the current generated both in Quebec and Ontario is almost 100 per cent from hydroelectric plants. The publicly owned plants of Ontario had 1,395,914 installed primary horsepower, and generated 2,931,850,000 kilowatt hours. The privately owned plants of Quebec had 2,914,070 installed primary horsepower and generated 8,449,936,000 kilowatt hours.

**D**ESPITE the fact that the private plants of Quebec have twice the installed horsepower of the public plants of Ontario and generate almost three times as much current, the private plants employ only 3,275 people as compared to the 5,893 people employed by the public plants. If the comparison is made on a basis of current used and the fact that the Quebec plants export about one fifth of their current to be distributed by the government plants of Ontario is consid-

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ered, it is found that 50 per cent more current is used by the consumers of the privately owned Quebec plants and the picture in regard to employees changes but little.

It is true that the domestic consumer of Ontario enjoys a lower rate and uses more current than the domestic consumer of Quebec, but any comparison as to the relative advantages of public versus private ownership should consider the relation between the utility and the consuming public. The consuming public of any electrical utility comprises all of its customers, power as well as domestic. Such a comparison shows that the average rate per kilowatt hour for all current sold is much lower in Quebec than in Ontario.

**C**OMPARING the publicly owned Ontario plants with privately owned American plants similarly situated, it is found that in 1928 the Ontario plants sold 4,341,498,634 kilowatt hours at an average of 0.85 cents per kilowatt hour. Across the river on the American side the Buffalo, Niagara and Eastern Power Corporation sold 4,436,403,784 kilowatt hours at an average rate of 0.76 cents per kilowatt hour.

The Ontario plants do not pay many taxes but these costs form a large part of the expenses of the

American company and when deducted gives an average rate of 0.66 cents per kilowatt hour. Similar figures for the year 1932 when large losses had been sustained in the power loads show for the Ontario publicly owned plants an average of 0.95 cents per kilowatt hour and for the privately owned American company an average of 1.05 cents per kilowatt hour or with taxes deducted an average of 0.89 cents per kilowatt hour.

This does not indicate any outstanding advantage for public ownership. In fact, the figures show that under approximately similar conditions American and Quebec privately owned plants make a much better record than the publicly owned Ontario plants.

**T**HE advantage of the Ontario domestic consumer is more apparent than real. The average per capita tax in Ottawa, Province of Ontario, is \$50.22 or for a family of four, \$200.88 annually. The average domestic consumer in Ottawa uses 1,558 kilowatt hours annually for which he pays \$27.63. The combined cost of his government and his electricity is \$228.51 to the average domestic consumer of Ottawa. In the city of Quebec of the Province of Quebec similar figures are \$157.72 for taxes and approximately \$53.46



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for electricity adjusted to the same load as at Ottawa, or a total charge of \$211.18 for government and electricity for the average domestic consumer.

It must be remembered that part of the money paid by the Quebec consumer for electricity is paid to his government by the utility in the form of taxes. The sum total of these bills represents an approximate annual savings of \$17.73 to the domestic consumer of Quebec and this despite the fact that the Ottawa domestic consumer received his current at a much lower rate.

Crossing to the United States, similar figures in St. Louis, Missouri, are \$173.20 for taxes and \$48.56 for an annual use of 1,558 kilowatt hours of electricity. This combines for a total of \$221.76 or \$6.75 less annually than is paid by the average domestic consumer of Ottawa. Many other cities in the United States which are served by privately owned plants show similar results.

**T**HE Ontario Hydro-Electric properties have been selected and numerous comparisons made between their rates and those of privately owned plants because these properties through interconnected transmission lines serve a large area and many cities. Their problems are similar to those of the privately owned plants of the Province of Quebec and to those of government plants now building in the United States with the exception that in comparison with our government plants the Ontario plants have a more economical set-up and serve large centers of population closer to the source of power. Further, the

program of the public ownership advocates calls for a nation-wide taking over of the electrical utilities with their central generating stations and transmission line hook-ups.

The probable results cannot be judged by isolated municipal plants even if it is granted that some of these have made a good showing. The measure of the success of the scheme must be estimated by a comparison of the results of publicly owned and privately owned plants of like size and similar characteristics. The experiences in Canada with the publicly owned plants of Ontario as compared to the privately owned plants of Quebec or even of the United States do not sustain all of the claims of the public ownership school.

**M**ANY claims are being made for what will be shown by the Tennessee valley, Columbia river, and other government "yardsticks." These plants have not been completed as yet nor have the claims for them been proven. Other claims are also made for municipal electric plants throughout the country. The records of the United States Bureau of the Census show that there has been a steady recession in the number of municipally owned electrical plants since 1927 and that many of those that remain are limited to distribution systems which purchase their current from privately owned generating plants.

Perhaps a question or two will be permitted at this point to wit: If the Ontario Hydro-Electric and the municipal plants have had the success claimed for them by their advocates, why has it been necessary for the government of the United States to spend



### Government Operation Really Unprofitable

*" . . . there are no examples of profitable governmental operation in the United States. . . . Should the process of government ownership follow the usual tendency of such movements and take over more and more functions it would not be many years until the United States would be in a position similar to that of Canada with the Canadian National Railways, that is, the deficits of its utility operations would be a serious embarrassment in balancing the annual budget."*

hundreds of millions of dollars to establish yardsticks? If yardsticks must be secured and studied why not use the privately owned plants of the United States which are larger than all of Europe combined and which generate and sell about forty per cent of the world's total electrical output to less than seven per cent of the world's population?

**I**N many cities, Seattle, Detroit, and Toronto, Canada, for example, the municipalities have taken the street railways and operated them. In no instance was the city able to continue their operation without an advance in the fares over those charged by the former private owners. Seattle, after several years of an advanced fare, attempted to reestablish the old 5-cent fare that had been charged by the private corporation. The results were so disastrous that in a few months the advanced fare was restored.

These municipally operated street

railways as shown by their annual reports have had the same difficulties in recent years from the competition of other forms of transportation that have been suffered by the privately owned lines. As a matter of fact, in San Francisco where they have both publicly owned and privately owned street railways, the privately owned line has made a better showing, and in Seattle the suggestion has been made that the lines be returned to private ownership.

There is nothing in the history of the publicly owned urban transportation which shows a present greater efficiency and economy than that of the privately owned or which gives any hope for the future.

**S**TATISTICAL measures of the efficiency of public operation of street railways are not reassuring. The Eleventh Annual Report of the Toronto Transportation Commission shows \$3,000 carried to surplus in the

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year 1932. However, this same report shows \$1,057,351 credited to the Reserve for Replacements in 1932 as against \$1,543,885 in 1931. There was no lessening of equipment or service in 1932 and, therefore, either the patrons were overcharged in 1931 or the company failed to meet all of its requirements in 1932.

In Seattle, the 1931 Annual Report of the Seattle Municipal Street Railway shows an income deficit for 1931 of \$366,398. No report seems to have been issued for 1932 but the estimated deficit for this year was \$409,700. In addition in June, 1933, the Municipal Street Railway was in arrears on four of the twelve annual payments of \$833,000 then due on the property's purchase price of \$15,000,000.

In Detroit the street railway system was purchased in 1922. Many years later Mr. John H. Morgan, city statistician, made a report to the city council that was a shock to those who had been praising the results of city ownership. Discussing the report the *Detroit Free Press* said:

In a study of the last ten years of D. S. R. history, Mr. Morgan reaches two main conclusions. First the department has not been managed efficiently and economically, and has been, and is, losing money. The losses for the past ten years have been \$22,000,000. He finds the prospective loss for the past year is \$1,000,068.

It cannot be said that privately owned street railways have fared much, if any, better than those publicly owned. However, the public operation of street railways has not given the advocates of this form of operation of public utilities any results with which to build their yardstick. The proof though negative shows that there is no magic in public

operation which will bring profits and low rates to the public from a utility which is losing money under private operation.

THERE are in the United States two outstanding examples of public ownership and operation, the Post Office Department and the Panama canal. The annual deficits of the Post Office Department are well known to every one. For the fiscal year ending June 30, 1933, this deficit was \$50,683,605, and for the fiscal year ending June 30, 1932, it was \$152,346,188. A recent report shows that the *ordinary* postal expenditures have been kept within the ordinary postal receipts in the fiscal year ending in 1934 for the first time since 1919 and that the surplus will be approximately \$5,000,000. One of the ways that this was achieved was by ordering the employees to take payless furloughs. This department is not run like an ordinary business. There are many adjustments allowed by law and there are hundreds of millions of dollars worth of buildings and equipment which were paid for from the taxpayers' moneys and on which the postal department pays no rental.

NOT so many people know that when capital interest at 3 per cent is charged against the Panama canal this government project also shows a deficit. The Financial and Operating Statements, U. S. Panama Canal Zone, Year 1933, which exclude the cost of military and naval establishments, show a cumulative deficit through the year 1933 of \$17,343,671. In only five of the last twelve years have the operations shown a net operating surplus.

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**I**N many cities, Seattle, Detroit, and Toronto, Canada, . . . the municipalities have taken the street railways and operated them. In no instance was the city able to continue their operation without an advance in the fares over those charged by the former private owners. Seattle, after several years of an advanced fare, attempted to re-establish the old 5-cent fare that had been charged by the private corporation. The results were so disastrous that in a few months the advanced fare was restored."



These two projects are not selected as examples of services that should be privately rendered. No one can deny that the services of both are good and that there are many indirect benefits derived which in some measure offset the losses. However, it must be remembered that Postmaster General Wanamaker, on retiring from office, said that the Post Office Department could be run much more efficiently under private management and the mails could be carried at a cheaper rate to the citizens.

These two projects do show, however, that there are no examples of profitable governmental operation in the United States. The government can make up deficits in operation to a certain extent from general revenues, but there is a limit to this. Should the process of government ownership follow the usual tendency of such movements and take over more and more functions it would not be many years until the United States would be in a position similar to that of Canada with the Canadian National Railways, that is, the deficits of its utility operations would be a serious embarrassment in balancing the annual budget.

**I**N seeking a cause for this failure of government to receive full

benefits when it enters the field of business, one must look to the general nature of the people and the nature of the business. It is argued that competent men will serve the public without hope of large financial rewards, but the recent and numerous strikes for higher wages for less effort, even striking at times against the wages paid on relief work, show that most people still demand that their efforts shall be rewarded by what they shall consider adequate personal profit. Further, every private undertaking has a yardstick because of its definite objective—profit. The test is gain or loss and by this we can measure its success. The private promoters gain or lose personally. The promoters of public undertakings escape all material and generally all moral penalties. When inefficiency means financial losses, and failure to increase the demand for the utility's service means a loss of opportunity for future investment and profit, the private owner is much more likely to keep a close watch upon his employees and plant performance than will the most conscientious of public officials who, because of a multiplicity of other interests, will rest quiescent as long as there is no trouble with the service.

As long as these things are true

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there seems no escaping the conclusion that utilities which are still in the development stage, as are most of the so-called public utilities, will grow more rapidly and render more and better service to the most people when they are privately owned and when those who operate them are actuated by the so-called profit motive.

ONE of the greatest drawbacks to the hope for successful operation of utilities by the government is the failure of any assurance of continuity of employment for those who operate the utilities. There are many able and devoted men in the service of the people and it would not be correct to detract one iota from their ability or from their faithfulness to their trust. However, it is true that this failure to assure permanency causes many men to look elsewhere than to public service for their livelihood. Men with families who seek security cannot trust to the vagaries of a public election. Further, the assurance of continuity of management is necessary for the development and per-

formance of future policies. Only by the method of long-range planning can full advantage be taken of all developments in the field and the maximum economy realized in effecting changes.

SUMMING up, in the past, the yardstick of business has been its efficiency and economy. When entering the field of business on an extensive scale the government must be measured by it. If the government restricts itself to one or more fields which are of general necessity and of outstanding public interest, it can afford to make up the deficits from the general tax revenues. If, however, it expands into more and more fields, its taxable items will grow less and less.

The decreasing tax receipts and increasing deficits will force the government to meet the yardstick of the business world. There is nothing in the past or present of governmental operation which indicates that the government will be able to meet this standard.



### Steam Railroad Taxes Paid to State and Local Governments

OF the total \$323,590,571 taxes paid to state and local governments by the steam railways, 8.7 per cent, or \$28,152,380 is levied against earnings; 83.2 per cent, or \$269,227,355 on property and rolling stock; 2.6 per cent, or \$8,413,355 on franchises, and the balance 5.5 per cent, or \$17,797,481 on miscellaneous items.

The tax proceeds are allocated as follows: Highways 13.9 per cent, or \$45,050,432; schools 45.8 per cent, or \$148,041,456; other general governmental purposes, 40.3 per cent or \$130,498,683.

These figures are based on tax accruals for 1930 and/or 1931.

—Committee on Public Relations of the Eastern Railroads.



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# Remarkable Remarks

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*"There never was in the world two opinions alike."*

—MONTAIGNE

MAURICE COWEN  
*Barron's.*

"In fact, all lines of business are public utilities."

HENRY I. HARRIMAN  
*President, U. S. Chamber of  
Commerce.*

"Business desires a slackening of reform efforts."

FLOYD W. PARSONS  
*Editorial Director, Gas  
Age-Record.*

"Chasing 'will-o'-the-wisps' has become our national sport."

OGDEN L. MILLS  
*Former Secretary of the Treasury.*

"We are sacrificing our birthright without even getting the mess of pottage."

NEIL CAROTHERS  
*Professor of Economics, Lehigh  
University.*

"In the forced-recovery measures economics sees hoary economic error in full operation."

WILLIAM E. BORAH  
*U. S. Senator from Idaho.*

"There is no liberty worthy of the name without economic freedom and social justice."

BAINBRIDGE COLBY  
*Former Secretary of State.*

"The guaranties of the Constitution are dismissed lightly, as if they were irrelevances in the present-day life in America."

DAVID E. LILIENTHAL  
*Director, Tennessee Valley  
Authority.*

"There is no basis for the hysterical cries of those who see, or pretend to see, disaster ahead for the electric industry."

*San Diego (California) Sun.*

"Perhaps it will be comforting to remember that we are purchasing a recovery, now, instead of just paying for a depression."

SAMUEL FERGUSON  
*President, Hartford Electric Light  
Company.*

"It is really amazing that when the Federal government offers municipalities all the money needed for a plant and system, with the added inducement of 30 per cent as a gift, that so few have fallen for the political bait."



## Will All Electric Plants Be Municipally Owned?

*That depends, the author thinks, on the attitude of the private companies*

By C. F. LAMBERT

THAT there is a decided trend toward the municipal ownership of utilities will scarcely be denied by the most bitter opponent of any governmental interference with private business. Even the Federal government has been taking an active part in the furtherance of municipal utilities not only through the financial aid given through the PWA but more directly through the activities of the TVA and other similar agencies.

President Roosevelt in a speech made at Grand Coulee dam, Washington, a \$63,000,000 water and power project fostered by the government, said these Federal undertakings concerned not only the states directly involved but the nation as a whole.

"We are going to see, I believe, electricity and power made so cheap that they will become a standard article of use, not only for agriculture and manufacturing but also for every

home within reach of an electric light line," said the President.

To many, this seems to be the result of what they call the present tendency toward socialism or even radicalism. They feel that it is one of the outgrowths of the post-war desire for a change in the order of things and an outburst of rebellion further engendered by the recent depression. The writer does not hold with these views entirely. There is no doubt but that the causes mentioned above have had their effect on the situation but we do not believe they are primarily the reason for the present trend.

THE American people are not naturally socialistic, in the sense which would cause them to be desirous of interfering with private enterprise. The average business man, so called, whether he operates a small commercial business or a large industrial con-

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cern, resents the interference of government in the operation of his business. The average wage earner, whether he be of the white-collar class or the skilled or common laborer, or the professional man, is satisfied to let government constrain its duties to governing so long as he feels he is not imposed upon.

What then has been the cause of this general uprising and demand for government, not only municipal but also Federal to depart from its purely governmental functions and enter into the power and light business? To the writer it seems primarily a question of economics; not a question of whether the utility is owned by a private concern, or by the municipality, or by the Federal government, but a question of cheap power and the only answer has seemed to be government ownership. When any article, whether it be a kilowatt or a sewing machine, can be made and sold at a price less than the prevailing price, the law of economics comes into play and the price is reduced.

**E**LECTRICITY, without a doubt, has become one of the necessities of our present mode of living and is not a luxury in any sense of the word. It is not necessary to enumerate the many uses to which it is now applied nor to try to predict the many further uses which may be found in the future. Most every one is quite familiar with this phase of the subject. Perhaps few people, however, not directly connected with the industry are aware of the tremendous growth in the use of electricity which has taken place in a comparatively few years. In the 30-year period from 1902 to 1932, the

number of kilowatt hours generated for use in the United States increased from 2,500,000,000 to 76,885,000,000 kilowatt hours per year or an increase of 2,900 per cent. The number of consumers had increased from 583,000 to over 24,000,000, an increase of 4,000 per cent.

While the depression had its effect on the use of electricity for commercial and industrial uses it had practically no effect on the use of electricity by domestic consumers. Without attempting to quote too many statistics suffice it to say that the use of electricity by domestic consumers increased rapidly until it reached a peak during 1932, two years after the depression began. During the year 1933 the total use remained practically the same as for 1932, and in 1934 it again began to increase. The above facts are mentioned because they all have a material bearing on the tendency toward municipal ownership.

**T**HAT the power companies must be given a large measure of credit for this tremendous growth is undoubtedly true, but that they have done so at enormous profits and at the expense of the public is just as self-evident. It is not the intention of this article to flay the power companies, nor to fail to give them credit where credit is due, but merely to present the facts as the writer sees them without bias or favor.

With the growth of the use of electricity, some of the leaders in the power industry conceived the idea of large central power plants generating electricity at low costs and distributing it over transmission lines to great distances. The construction of these



### Municipal Ownership? That Depends

*"... are all electric plants to be municipally owned in the future? It would seem that that largely depends upon the power companies themselves to decide. If the officials of the power companies will learn that the average citizen is not as dumb as they apparently think he is, and that increased business and increased profits will come from lower rates which are based on economically sound investment basis, then the cry for municipal ownership will not be so loud; but no doubt an increasing number of cities will continue to see the advantage of keeping the wonderful profits of an electrical plant at home."*

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large central generating plants with the desire for lower and lower production costs furnished the incentive to the manufacturers of all types of power plant equipment to build better and better machines which would increase the number of kilowatt hours which could be generated from a unit of fuel. This resulted in reducing the pounds of coal required to generate a kilowatt hour from 6.7 pounds of coal per kilowatt hour in 1902 to about 1.5 pounds of coal per kilowatt hour at present.

THE development of this equipment, the building of large plants and of long transmission lines, was not accomplished, however, without the expenditure of large sums of money. The saving in cost of production as compared with the older and

smaller plants undoubtedly seemed to justify at the time these expenditures. However, it must be remembered that the business was largely noncompetitive and to adopt a new popular phrase there was no "yardstick" to measure at what point the cost of efficiency became too high.

A city was only part of a group and had often no means of determining whether its portion of the investment was too great. Where state commissions determined rates to be charged they seldom if ever investigated the question as to whether the investment in power plants and transmission lines had been prudently made from the standpoint of economics.

At the same time that the manufacturers had been perfecting the highly efficient large machines they found that most of the improvements could

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be adapted to smaller equipment also.

THE municipal plants which had survived the purchasing campaign which the power companies had waged, were not standing still and they also took advantage of the new and more efficient equipment, but installed new equipment only when it was proven that the saving justified the cost. The result today is that due to this development of the smaller steam equipment and the improvement in the Diesel engine, the large super-power plants have a margin in production cost of only a small fraction of a cent per kilowatt hour over the smaller plants and often at an increased investment cost per kilowatt installed capacity. In addition to that the power companies had the heavy investment in transmission lines which had almost invariably been made without any thought given to its economic soundness.

On top of that came the holding companies which tried to justify their drains on the operating companies by the excuse that through their careful management and large purchasing power they were of economic benefit to the operating companies. The fallacy of this contention has been proven so many times that few courts or commissions even consider it any more.

THE problem then became an economic one as between an isolated plant serving its own community or extending beyond to a district which could be reasonably and economically served, and a large interconnected system with its expensive plant and costly transmission lines, with high-salaried officers and large interest charges. It is these costs, and not taxes, which

make it impossible for the large interconnected systems to compete with the isolated plant. The only way most cities can secure relief from these conditions is by building a municipal plant and hence the trend toward municipal ownership.

The writer will not attempt in this article to go into detail as to the advantages which many cities have found in owning their utilities, but it is a fact that all through the recent depression it has been the cities which have owned a considerable portion of their utilities, especially the electrical utility, which have weathered the storm with the least difficulty.

THE companies say that municipal plants pay no taxes and most people believe them. Technically, that is true of many municipal plants, but the saving to the consumer in reduced rates or in the reduction of city operating expenses paid from the earnings of its municipal plant so far exceeds taxes that the point is negligible.

The question then arises: are all electric plants to be municipally owned in the future? It would seem that that largely depends upon the power companies themselves to decide. If the officials of the power companies will learn that the average citizen is not as dumb as they apparently think he is, and that increased business and increased profits will come from lower rates which are based on economically sound investment basis, then the cry for municipal ownership will not be so loud; but no doubt an increasing number of cities will continue to see the advantage of keeping the wonderful profits of an electrical plant at home.





# OUT OF THE MAIL BAG

## Competition Not Confiscation

**P**UBLIC UTILITIES FORTNIGHTLY of October 25, 1934, included in the "Out of the Mail Bag" department a letter by Benjamin L. Tomes of Philadelphia, Pa. Mr. Tomes holds to the view, evidently, that when the government enters into competition in business with its citizens it should reimburse them for consequential damages. He mentions "stealing the business of the people without compensation."

Besides pointing out that stealing *with* compensation is a bit unusual, may I call attention too to the fact that private parties continually enter into business competition with one another; that, no matter how ruthless such competition may be, it is not commonly regarded as "stealing," and that the idea of reimbursing a competitor for having decimated or destroyed his business is, as yet, astronomically distant from the ethical levels of present-day businessmen.

The government, in this instance, is doing to private parties only what they do to one another.

—ALBERT J. FRANCK,  
Richmond Hill, N. Y.



## The Forgotten Man in the Depreciation Controversy

**I**N the article "The Forgotten Man in the Depreciation Controversy," Mr. Nash seems to have forgotten the neglected and abused investor entirely. Men, women, children, institutions, and all the great army of investors who have invested (including the widows and orphans to whom Insull testified he sold stock) deserve some protection. It is bad policy to overlook the rights of the people who have something to lose in order to benefit the consumer who has nothing invested in the enterprise, unless he gullibly became a customer-ownership investor, in which case his investment needs protection.

I have examined public utilities for the past thirty-two years, twenty years as a certified public accountant in nearly every state in the Union, and have had much opportunity to observe the retirement of utility property

and to "visualize the distinctive character of public utility service."

Mr. Nash's article is excellent, so far as it goes; but he failed to tell the whole story. There is more to the example on page 571 (PUBLIC UTILITIES FORTNIGHTLY, Vol. XIV; No. 10) than was stated. He also overlooked the authoritative pronouncement dated November 16, 1933, of Mr. Walter J. Fitzpatrick, chief of the accounting division, and Mr. Malcolm F. Orten director of research and valuation, of the New York Public Service Commission at Albany.

**T**HE said report shows clearly the effect of retirement accounting as used by utilities which evidences that Mr. Nash has forgotten the investor. It said:

"It is in fact fairly obvious that if straight-line depreciation accounting had been in effect since 1920, the stocks of public utility operating and holding companies would not have gone as high as they did, because net earnings available for dividends would not have appeared so great. This fact alone would have saved considerable money to investors in such securities. If the stock of the American Telephone and Telegraph Company is any indication, it appears that they would not have gone so low during the depression as they have done." (Page 62—italics supplied. Note: It is believed that the said telephone company accounted for sufficient depreciation.)

"This argument reveals, however, what is in our opinion the real objection of those in control of the utilities to the straight-line method or to any fixed method; namely, that it would remove the possibility of manipulating the net income in accordance with the financial policies and interests of those in ultimate control. If this is true, we would expect that the opposition would be strongest by large holding company systems and weakest on the part of single independent operating utilities, large or small. The record shows this to be a fact." (Page 63—italics supplied.)

**T**HE so-called "equalized retirements method" of accounting for consumption of property is a delusion and a snare—a delusion because it is misleading to the stock-

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holders and to potential investors, and a snare because in times of prosperity and rising stock markets the appropriations to depreciation and retirement reserve appear to have been "held down for the purpose of showing large earnings and paying large dividends, with the result that when depression came there were no large depreciation reserves to draw upon as a stabilizing force."

It is my opinion that the public service commissions will soon prohibit the use of the so-called "retirement expense" method of accounting for the loss in the service value of property and will deduct from the rate base the accrued amount of depreciation the utility has collected from the consumers through the rates.

—WILL-A. CLADER,  
Philadelphia, Pa.

### Mr. Nash's Answer

THE criticism which Mr. Will-A. Clader has sent you of my article "The Forgotten Man in the Depreciation Controversy," recently published in the FORTNIGHTLY, implies that I have neglected the investor in favor of the customer. I adopted the latter viewpoint because most of the previous discussions, including, my own, have given primary consideration to the interests of the utility and its investors. As a matter of fact the suggested inconsistency between these two viewpoints does not or should not exist. A policy which in the long run is of advantage to customers should also prove of advantage to investors. The electric power industry is an outstanding example of development through mutual advantage.

Apparently Mr. Clader is as firm a believer in straight-line depreciation accounting as I am in the alternative retirement accounting. My opposition to the straight-line method is due not only to the uncertainties of useful life but also the fact that the only extended application of this method by utilities has been subjected to widespread criticism or condemnation as soon as the relation between a mature reserve accumulation and fixed capital has been clearly disclosed. I see little advantage in adopting a program that may be discarded as soon as its logical results are known.

The concluding words of my paper, referring to retirement accounting, emphasize the necessity of "sustained fidelity in its application." I am aware that there have been and still are illogical or unwise applications which Mr. Clader refers to as "manipulating." I do not, however, think that an otherwise desirable business procedure should be condemned because of possible abuse. If such condemnation were common, economic progress would cease as certain events of the past year have demonstrated.

It is my belief that uncertainties as to useful life justify some flexibility in provisions for retirements, and that such flexibility is in the interests of investors because of more stable credit. Abuse of this flexibility should be scrupulously avoided, and my paper contains formulæ through the application of which accountants may have an increasing responsibility in determining the amount and adequacy of current appropriations. With such safeguards the interest of both customers and investors should be served.

—L. R. NASH,  
New York, N. Y.



### Facts Worth Noting

CANADIANS engage in more telephone conversations than the people of any other country.

A TELEPHONE switchboard serving as many as 10,000 lines may have more than 2,000,000 separate connections, each of which must be soldered by hand.

FIFTY-TWO nations are in telephone contact with each other, and every nation having more than 100,000 telephones, except Japan and China, is in part of some world-wide chain.

RAILROAD shipments in 1933 resulting from the manufacture and use of motor cars and the building of highways exceeded 2,600,000 carloads and paid the railroads \$330,000,000 in freight charges.

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# What Others Think

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## Two Good Statements on Government Ownership

THE government ownership controversy is assuming such significant proportions that one wonders at times if it would not be worth while for some sporting philanthropist, in the interest of getting the best results from the argument, to establish an annual prize in the form of a nice check or perhaps a handsome medallion or golden miniature of a hydro power dam, to be awarded for the best contribution to the subject—some-what after the manner of the Pulitzer prize awards for excellency in journalism, drama, etc. It would be better perhaps, if such a plan were adopted, to award two prizes, one for the best argument for and one for the best argument against government ownership.

All this is by way of presenting a review of two recent papers which in the opinion of this reviewer would qualify for the two awards for the most intelligent statements for and against public ownership of the electric utility industry respectively, if such awards were to be made for the year 1934. Of course, there were quite a few excellent papers on both sides in the form of magazine articles, books, and addresses, and there was a great deal more of second-rate and trivial material—also on both sides.

In material prepared in favor of government ownership, there is the common fault of the author to confuse argument with epithet. The theoretical award ought to be given to the most original and intelligent article with due consideration for logical and pertinent discussion, which would eliminate a great deal of material that has the unmistakable atmosphere of the rant and cant of the demagogue on the hustings. For one thing, the propaganda activities of the private industry in the era of 1929 seems to be constantly reshaped as an argument why government operation

of utility service should be attempted in this year of our Lord, 1935. This, of course, does not necessarily follow. That is to say, there are more pertinent matters to be considered before such a national program could be accepted by the intelligent skeptic.

ON the other hand, arguments opposing government ownership of utility service have a tendency to put forth the real and fancied hardships of the private operators under "political persecution" as arguments why government operations should never be attempted. Certainly the tax burden, for instance, of the private utilities, unfair as it may seem in contrast with the tax exemptions enjoyed by publicly operated plants, is small basis for a conclusion that public operation is of itself economically unsound or improper for other reasons.

Then too there were a number of good discussions during the year 1934 which were limited to certain phases of the subject. For example, several addresses by TVA Power Director Lilienthal might easily qualify for serious consideration were it not that he confined, for obvious reasons, most of his attention and discussion to the specific problems incident to the Tennessee Valley Authority program. For the same reason, the forceful statements of President Wendell L. Willkie of the Commonwealth and Southern Corporation could perhaps not qualify in our mythical contest by reason of the limited scope of his discussion on the other side of the issue.

And so having laid out an alibi in advance so to speak, this reviewer, glancing back over the material that has come to his attention bearing on public operation of the electric industry during the

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year 1934, recommends as his choice for the mythical award of the best general statement of reasons justifying government operation a little matter of three pages contained in a recent report of the National Resources Board to the President of the United States. The passage referred to is Part I, § 1, Chap. IV, entitled "Hydroelectric Power."

**O**DDLY enough this section does not purport to have been designed as an argument in favor of government operation of power projects, but rather as a very general and broad discussion of the national hydro power problems. Nevertheless, it does give an unusually clear and fair statement of reasons that would justify American citizens in giving serious consideration to the expediency of government operation of power projects. The National Resources Board leaves to the anticipated report of President Roosevelt's power policy committee a more detailed discussion of power policies, but it did go on to point out certain major facts which bear on the problem of planning for the larger use of water power.

The report viewed, first of all, the historic development of the utilization of energy latent in our natural resources—wind, water, coal, gas, and oil—all capable of being transformed into electric energy the most fluid and usable form known. Hence one of the objectives which national planning should strive to attain is to provide all sections of the country with all the electric power they may require at the lowest possible cost. From a long-run point of view, it was stated, the desirability of conserving natural resources makes the full utilization of all available water power seem highly desirable since every unit of coal, gas, or oil burned is so much deducted from irreplaceable supplies, while water power, on the other hand, is a self-replenishing resource, which is not destroyed or impaired for other uses by hydroelectric exploitation. On the other hand, the report observes, from a short-range commercial viewpoint, the comparative

merits of water and fuel as sources of electric power wear a different complexion by reason of the improvements in fuel generation, the low prevailing prices of coal, gas, and oil, and the possibility of building fuel generating plants near the power markets at lesser cost than the price of supplying these markets with hydro-generated energy. The report states: "The advantage in cheapness lies decisively on the side of coal, gas, or oil plants, where they are favorably located with reference to the markets and fuel supply, and provided that they can operate their furnaces continuously at an even rate."

**F**OR this reason, it was pointed out that 79 per cent of the total electric generating capacity of the country is fuel burning; 21 per cent being provided by hydro plants. It is this matter of economy that gives rise to the best point made by the report in favor of government operation. It was pointed out that the 21 per cent hydro capacity comes from water-power sites which, all things considered, have seemed most profitable to develop. As matters now stand private enterprise is unlikely to push the development of water power much further since the remaining sites are mostly expensive to develop, distant from markets, unreliable in flow, or undesirable in some other respect from the strictly commercial viewpoint. The government as a developer of water power, on the other hand, is in a different position, according to the board's report:

Government development of water power cannot overlook considerations of cost and return; but it can take a broader and a longer view of the returns than commercial companies can afford to take. The government is concerned with the question of conserving fuel resources, touched upon in paragraph 2 above, in a fashion different from private business. Also, in developing water power the government should reckon among the gains any social benefits that may accrue to its citizens, though the benefits might yield no financial returns to a private company. Dams are erected in numerous cases to serve one or several purposes other than generating electricity; for example, to prevent floods, to prevent

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streams from running too low in dry seasons, to facilitate navigation, or to irrigate farming lands. Sometimes, though not always, the water stored behind these dams can be used for power without detriment to the chief purposes of the project. Under these circumstances, the capital cost properly attributable to the generating unit is, not the cost of the whole undertaking, but merely the extra costs of installing generators and transmission lines. Then a power project which would have been unprofitable, considered purely on a commercial basis, may earn a satisfactory return upon the cost allocated to the generating unit.

**A**NOTHER factor that the government as a water-power developer may consider is the social desirability of supplying electricity to a larger number of people than now enjoy the great aid to life. It was pointed out that only 13 per cent of our 6,200,000 farms have electricity, whereas 64 per cent of the farms have automobiles. What keeps this potential demand from becoming effective, according to the report, are the relatively high charges for electricity that prevail in many sections. As against the national average consumption of the United States of 604 kilowatt hours in 1933, at a national average domestic rate of 5.49 cents per kilowatt hour, the report observed that Seattle has an average rate of 2.58 cents for average consumption of 1,098 kilowatt hours. (The report, obviously in error, gives the consumption in terms of "per capita." What is meant is most probably "per domestic consumer.") Tacoma has an average rate of 1.726 cents, with an average use of 1,550 kilowatt hours. Twenty-six cities in Ontario average 1.45 cents and average use 1,780, while Winnipeg is reported to have the surprisingly low rate of 8 mills for the amazing average use of more than 4,000 kilowatt hours per domestic customer.

**T**HE report concludes that if average cost to consumers was substantially reduced throughout the country, tremendous increase in use would follow, cutting overhead costs. It was remarked that a reduction in cost of service might be effected at any of the

three stages of electric service (generation, transmission, and distribution), but that the stage of transmission, which ties together generation and distribution to consumers, seems to afford the best opening for "systematic planning." Then follows a brief discussion of the advantages of interconnection, in which examples are cited in existing private systems in the United States. It was said, however, that large districts are still without these advantages resulting in a waste of investment as a result of excess capacity. It was observed that excess generating capacity over maximum peak loads now obtaining in Pennsylvania, New York, and New Jersey range from 30 to 37 per cent, whereas 15 per cent of excess capacity might be taken as necessary to sound operation. The report sums up the entire problem in a very brief and general way in the following paragraph:

The government has an interest in extending the use of electricity as an increasingly significant item in the American standard of living. Hence it has an interest in the reduction of rates to stimulate consumption. It has a special interest in the development of hydroelectric plants as a means of conserving the country's resources in coal, gas, and oil. In some cases its plans for flood control, or other uses of water, would enable it to provide hydroelectric power as a by-product at slight direct cost. The government will not fail to consider as a factor in the total situation the large sums of capital actually invested by power companies. The critical questions for the government are how far the elasticity of the demand for electricity and the economies produced by interconnecting transmission lines may make it possible to reconcile these seemingly conflicting interests, and, to the extent that reconciliation is not possible, which interests should be given preference.

**T**HE other half of this reviewer's mythical award—that for excellency in a statement of the case against government operation of utilities during the year 1934—would go to Merle Thorpe, editor of *Nation's Business*, for his address before the Electric Institute at Washington, D. C., November 8th. Because the occasion of his address was a private banquet of more or less



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local character for the District of Columbia, Mr. Thorpe's speech did not attract the attention, perhaps, that it would have received if delivered on a more public occasion, but just the same it was a sterling discussion that will long be remembered by those who were fortunate enough to be present.

Mr. Thorpe opened by reminding his listeners that the present-day generation of Americans are too much inclined to take the modern wonders of technical improvement for granted. The amazing daily advances in aviation, chemical industry, television, radio, etc., move us only to yawn and say, "Well, what of it?" Likewise, the achievements of the electric industry, which has grown to such an important place in our present plan of life that it represents the savings of 10 million American citizens and employment for 2½ million more.

But suppose, said Mr. Thorpe, that we were all sitting together fifty years ago—the year Edison discovered the incandescent light. Suppose that we had resolved ourselves at that time into a National Planning Committee on the general welfare of the Nation and had ordained among other plans that electricity should be used, not only for the lighting of streets and the powering of factories, but for the use of all—rich and poor; that there should be twenty-four hours-a-day dependable service, costing the whole family less than usual expenditures by any one member for cosmetics or cigarettes; and finally that the whole program should not be financed by government subsidy but by voluntary investments to earn a fair and safe return.

**S**UCH a program publicly advanced fifty years ago by our theoretical planning committee would have been hooted and booted from one end of the country to the other as sheer moonshine product of irresponsible dreamers, according to Mr. Thorpe, yet all this has come to pass. This program has been carried out by a privately owned industry that, in addition to the many

benefits it bestows on the people, pays almost a dollar in taxes to every dollar it pays in wages. This has come about because sincere dreamers invested their own energy and savings and persuaded their friends to do likewise so that their dream might come true. Who were these dreamers? Were they elected by popular vote or appointed by politicians? On the contrary, they came from accountants' desks, sales counters, power line poles, and other modest stations to compete in the test for qualities of executive capacity which private industry imposes as the price of reward and leadership.

It has been a long, hard road—this 50-year plan. Mistakes were made. Some of the leaders stumbled. By and large, however, they were and are sincere and able men with a desire to see a job well done. They took a risk. If they succeeded, success was their reward. If they failed, it was their own hard luck. This incentive of private ownership is the American plan, according to Mr. Thorpe,—the *raison d'être* of our economic accomplishments in America. Unfortunately, under the strain of depression we are prone to take these accomplishments very lightly—to believe that very little worth while was done in the past and that little done badly. There are many forthright reformers who are willing to suggest that the "old order" and "Bourbonism" are responsible for all our troubles. And yet it was only five years ago that other nations were sending commissions to study our methods to find out why our young country had attained a higher standard of living than any other in the world. Here is Mr. Thorpe's summary of what these commissions found:

With 7 per cent of the world's people, the United States has more purchasing power than all Europe combined. This little group has created and owns more than half the world's wealth. From 6 per cent of the world's acreage they harvest more than half the world's foodstuffs. Sixty per cent of the minerals are extracted in America. Half the communication facilities, nearly half the railways and electrical energy have been developed and are in use here. Indi-

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## THE LINE'S BUSY!

vidual transportation is triumphantly interpreted in the production of 92 per cent of the automobile output, which is operated on 600,000 miles of paved highways.

This 7 per cent maintains a standard of living which consumes half the world's coffee, half of its tin, half of its rubber, one fourth of its sugar, three fourths of its silk, one third of its coal, two thirds of its crude petroleum.

In 1933, to bring the record down to date, more than three billion dollars were spent on education, an amount that topped the to-

tal spent by all other countries. Nowhere are there such luxurious buildings, such a wealth of educational facilities. European schools enroll only a small percentage of the number of children attending American schools.

Real and practical independence for women: The "old order" provided gainful occupations for 11,000,000 women, assimilating 7,000,000 since 1900.

**O**F course, various reasons were given by our visitors for Amer-

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ica's success. Some said it was national resources, forgetting that other countries have greater resources than ours. Some said we had beaten other countries in exploiting the advantages of mass production. Today our system is condemned because it is overmechanized. Some said it was our banking system, because it permitted courageous investment. Today our pre-New Deal banking system is held up as reckless. Mr. Thorpe believed, however, that the underlying reason for it all could be found in the fundamental philosophy of the founders of our government in 1776—the view that political and economic freedom of the individual should be regarded as sacred by the law. Mr. Thorpe said:

Our industries have grown, our standards of living have risen to undreamed heights, our "average" man is way above the average because of the operation of this truly American system. This system is roundly denounced today and I realize it is most unpopular for anyone to do it reverence. Yet, I wonder if we really understand it. Simply described, it means that an individual or a group of individuals can persuade you and me and John Doe and Richard Roe, who spend a little less than we earn, to pool these savings voluntarily and give that group of individuals opportunity to make a dream come true. We lend our savings (by buying their bonds), or we go into partnership with them (by buying their stock). They employ those savings in some productive enterprise,—an electric light plant, a department store, an oil well. When we place those savings in insurance, the company, in turn, places them likewise in productive enterprise. Similarly, if we place them on deposit in banks or in building and loan associations, such enterprises keep not only our savings at work, but, since they are productive—that is, kept constantly at work—our savings provide continuous employment for men.

But when the government takes these savings by taxation and spends them on nonproductive enterprises, the amount left for creative enterprise is less. When savings dwindle through business stagnation, there is nothing left for productive enterprise. The state may borrow and spend but resulting employment is not permanent. On the other hand, if the state should spend on pro-

ductive enterprise (such as power plants), it competes with the source of its own revenue and dries up the latter.

THEN there is the possibility of industrial progress. The record of all the years, according to Mr. Thorpe, shows that every step in economic progress has been made through voluntary effort of individuals. Conversely, political organisms have never created wealth-producing enterprises. Walk down the street and look around. Telephone and telegraph poles, department stores, buildings, airplanes and radio aerials overhead, movie houses, automobiles, etc. Just think. Was a single one of these ever developed by a governmental bureaucracy? You may point, of course, to the waterworks and the Post Office, but even here it must be recalled that private creation and individual investment pioneered, established, and operated waterworks and stage mail routes years before the state took them over. The record is that state capitalism engages in nothing new. Lacking the ability to pioneer itself, it can only, parasite like, take over that which has already been pioneered, and thrive on operations which have already been made profitable by private enterprise.

The trouble with the politicians, according to Mr. Thorpe, is that they start with the false premise that business is a cut and dried routine, self-sufficient and self-perpetuating. They fail to sense the deadening effect upon the spirit of men of bureaucratic harassment. But business is not self-starting. It requires devoted attention. Men, *human beings*, are the real "prime movers" of American progress. If every salesman were to throw down his sample case and decide that the game was not worth the candle, the famous American standard of living would fade out. It is the "plain and simple fact that the United States of America is kept a going concern through the indestructible spirit of its salesmen." Politicians seem to think that \$26,000,000,000 worth of goods can be sold at retail annually by mere order-taking.

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They have added a governmental "Be-ware!" to the abnormal sales resistance that business must cope with in times of adversity.

Mr. Thorpe concluded by suggesting that we evidence our national patriotism by demanding of our government that it guarantee that nothing should be done to dampen the ardor or break the spirit of the pioneers of American industry which has given all of us today luxuries

that were denied to kings and queens a short fifty years ago but now apparently unappreciated.

—F. X. W.

NATIONAL RESOURCES BOARD. A report on National Planning and Public Works. United States Government Printing Office. December 1, 1934.

"WE, THE PEOPLE—" Address by Merle Thorpe before the Electric Institute, Washington, D. C. November 8, 1934.

### Relationship between Utility Rates and Tax Rates

**"A** 5 PER CENT reduction in electric and gas rates means as much to the average home owner as a 20 per cent reduction in the city tax rate."

Such was the surprising statement credited by a writer in the November issue of the *National Municipal Review* to Paul V. Betters, executive director of the American Municipal Association. It was reported that this statement gave the mayors and other municipal officials assembled at a recent convention of the North Carolina League of Municipalities much "food for thought." And well it might. Unfortunately, perhaps, the assembled mayors did not have at hand a most comprehensive and interesting survey of "Comparative Tax Rates for 284 Cities, 1933," by C. E. Rightor of the Detroit Bureau of Government Research, published in the following (December) issue of the same *National Municipal Review*. Mr. Rightor's excellent study not only segregates the city rate per thousand dollars assessed value in each community, from school, county, and state taxes, but he has also attempted the arduous task of adjusting the rate to actual value according to the estimated ratio of assessed value to the legal basis in each community. The result makes the adjusted rate in one city fairly comparable to the adjusted rate in another and avoids the hackneyed objections that the town of So-and-So assesses only 50 per

cent of value, while the town of Whosis assesses 80 per cent of value, etc.

**C**ONSIDERING only the adjusted rate for cities over 100,000 population (90 of them are listed), we find the tax per thousand ranging from \$14.40 in Birmingham, Ala., to \$40.60 in Fall River, Mass. The average annual tax per thousand, however, of all 90 cities figures out at \$25.63. If we throw about half of this off for school, county, and state taxes (a very liberal proportion by the way), we get an average city tax of \$12.82 per thousand. If we consider that the average city home owner who uses both gas and electricity has a dwelling of an average value of \$3,500 (surely not too high a figure), then his annual city tax bill on the average rate of \$12.82 per thousand is \$60.24. Now the Census Bureau's study of the electric industry in 1932 gave the average annual electric bill for residential service as \$35, while statistical figures in the *American Gas Association Monthly* for December, if computed on a basis of average annual gas bill for domestic consumers (including house heating) give a total of \$25.24—a total average annual bill of \$60.24 for both gas and electricity, as compared with the average annual tax bill of \$45.07. Applying Mr. Betters' figures, a tax reduction of 20 per cent would mean an annual saving to Mr. Average Home Owner of

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\$9.01, which would be just about 200 per cent more beneficial to him than a 5 per cent gas and electric rate reduction, amounting to \$3.01, or less than a penny a day.

**C**OMMENTING on Mr. Betters' statement, Patrick Healy, III, executive secretary of the North Carolina League of Municipalities, takes the view that it is the duty of municipalities to organize to seek ways and means to reduce utility rates charged against their citizens. He stated:

If we are interested in reducing the cost of living to our communities, we should look not only toward the governmental costs but also to all other elements going to make up the total cost of living—especially the utilities services. Much has been written and spoken about curtailment of municipal budgets and expenditures, but the bankers and budget committees have said little or nothing as to reduction of utility rates. When we consider that the public pays in local utility rates about 10 per cent more in money than it does in local taxes, there is no logic in the predominance of the issue of governmental costs to the absolute exclusion of the issue of utility charges.

**A**NALYZING the reason for the widespread public antagonism which he finds toward public utilities, Mr. Healy thinks that while resentment toward utility monopolies, disillusionment from unsound utility financing, and other utility deficiencies might be responsible to some extent, the failure of utilities to reduce rates is the chief reason. He reviews the cost-of-living index (Department of Labor) decline of 22.9 per cent from 1929 to 1932 and compares it with a decline of 5 per cent in domestic gas rates and 4.5 per cent in domestic rates in the same period.

And how may the municipalities acquit themselves of this duty to seek utility rate reductions for their citizens? Mr. Healy suggests affiliation with state leagues of municipalities—voluntary associations of cities, villages, towns, and counties for the purpose of advancing the best interests of municipal government. He proposes the organization of a utilities bureau in conjunction with the league set up to "provide efficient

and systematic professional service in utility matters at minimum cost to communities included in the league." Such a state bureau would be separately organized and financed, but its activities would be conducted in coöperation with the American Public Utilities Bureau. Mr. Healy concluded:

These are only a few examples of how the leagues of municipalities represent the public's interests in utility rates and policies. Although they have their effect, these attempts on the part of the leagues are only spasmodic and at best they only represent a scratch on the surface. What is needed is a definite and continuing policy of study and analysis of utility problems, such as is contemplated in our plan for a permanent utilities bureau to be established in connection with the leagues of municipalities.

**O**N the other hand, Mr. Frank T. Post, president of the Washington Water Power Company, believes that municipalities might well make some effort, in the interest of the taxpayers, by requiring those of their number who own municipal plants to pay taxes on them. Addressing an annual convention of the Independent Telephone Users Association, Mr. Post reviewed the amount of taxes which are lost yearly in the state of Washington by the failure of municipal plants to pay property taxes. He gave one example of a city plant of which it is claimed that its profits from operation are sufficient to retire plant bonds at the rate of \$6,000 a year. Mr. Post added that if the plant were required to pay the same taxes at the same rate imposed on private utilities, such taxes would amount to \$6,900 a year. He pointed out that under the tax-exempt status of municipal plants, Washington cities operating their own utilities are subsidized by farmers, home owners, and other taxpayers throughout the state to the extent of the amount of tax funds that would be produced if the exemption were eliminated. Appealing especially to the rural citizenry, Mr. Post stated:

All property devoted to business should be on the tax rolls and this includes the city water systems, a subject not often discussed. The farmer may get his water for domestic



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and irrigation purposes from a well or a spring or a stream, with pipe lines connected thereto. That is his water system and that property is a material factor in fixing the value of his farm. It goes on the tax rolls. There is no just reason why the city dweller should get water for domestic and irrigation purposes from a community-owned system free from taxation. The taxes that the city water systems do not pay must of necessity be paid by the same farmers who pay taxes upon their own water systems and by other taxpayers in the state, including telephone companies and all other industries and businesses in the state.

**T**HIS view is shared by many progressive advocates of public ownership. David E. Lilienthal, power director of the TVA, addressing the Rotary Club of Memphis, Tenn., on October 17, 1933, stated:

The item of taxes in public power operations has been the subject of confusion and misinformation and I would like to discuss it for a moment. The principle, as I see it, can be worded in this way. A public power system should bear the burden of taxes which it would pay if it were privately owned. A public power system should contribute its share of taxes to the general fund. This has for years been the established practice in well-managed power enterprises.

While on the subject of utility taxes, it might be well to glance at another article in the November issue of the *National Municipal Review* by Wade S. Smith of the National Municipal League, entitled "The Municipally Owned Utility: Profits or Service?" Mr. Smith clearly states a general principle that is all too often forgotten in utility taxation: "The greater the taxes the higher the rates and the more the restriction to use." Summing up the reasons for his view that municipal plant rates should not be compelled to share the burdens of the cost of government, either as a direct tax or an indirect tax in the form of large profits for the benefit of the general fund (taxless town), Mr. Smith concluded:

There seems little likelihood that there will be any wholesale abandonment of the principle of exempting municipal utilities from taxation. In some instances where cities have been accustomed to secure large revenues from municipal utility "profits" it

may be wise in abandoning this practice to include as part of the production cost a tax comparable to that which would be charged if the plant were privately owned or managed. But in view of the tremendous importance of electrical energy in our urban civilization, voters and taxpayers might better keep their municipal establishments tax exempt, eschewing all attempts to have them make a "profit," and striving to secure the lowest possible rates and the highest possible utilization. Private ownership will then have a real incentive to lower its costs to a competitive level, and the utility can take its place as a *bona fide* service function to the local government.

**T**HAT the imposition of taxes on utility service means higher rates and more restricted use is just as true of private utility service as it is of municipal plants was shown by the warning delivered by Chairman Milo R. Maltbie, of the New York Public Service Commission, to the officials of New York city against excessive taxation of utilities. He said:

Upon the one hand city officials are demanding lower rates; but at the same time they are making lower rates impossible by increasing the cost of rendering service.

Is it fair that the customers of certain utilities be burdened through higher rates due to additional taxes in order that the users of another utility service may be charged less than the cost of rendering that service?

Chairman Maltbie's reference to "another utility" was generally construed to mean the New York subway system in which the city is itself financially interested. Notwithstanding this warning, the city aldermen voted to boost the utility gross receipts tax to 3 per cent during 1935, excluding the independent subway system.

—F. X. W.

THE PLACE OF LEAGUES OF MUNICIPALITIES IN REPRESENTING THE PUBLIC'S INTEREST IN UTILITY RATES AND POLICIES. By Patrick Healy, III. *National Municipal Review*. November, 1934.

TAXATION AND LEGISLATION. Address by Frank T. Post before the 19th Annual Convention of the Independent Telephone Association of Washington. June 22, 1934.

THE MUNICIPALLY OWNED UTILITY: PROFITS OR SERVICE? By Wade S. Smith. *National Municipal Review*. November, 1934.

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# The March of Events

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## President Confers with Power Executives

ALTHOUGH swamped with executive business during the middle of December prior to the convening of the 74th Congress, President Roosevelt deemed it advisable to confer with representatives of the privately owned power industry concerning the critical situation which has arisen as a result of the power policy of the national government. Among those who visited the White House were former Secretary of War Newton D. Baker, who as special legal adviser for the Edison Electric Institute was reported to have discussed with the President the constitutionality of the Tennessee Valley Authority's activities in the power business; Wendell L. Willkie, of the Commonwealth and Southern; Preston S. Arkwright, president of the Georgia Power Company; Floyd L. Carlisle, chairman of the board of the Niagara Hudson Company; Thomas N. McCarter, president of the Edison Electric Institute. During these conferences, the President let it be understood that some utility executives were seeking to effect a truce with the government, but at the same time TVA Power Director Lilienthal advised certain Alabama municipalities to proceed with their postponed plans to build duplicate distribution systems on the alleged ground that obstructionist tactics by the private power industry had made the chance of success remote for peaceful negotiations between the TVA and the private companies for the carrying out of the TVA power program. The action by Director Lilienthal was taken ostensibly because of preferred stockholders' suits in Alabama against the TVA purchase of utility properties which resulted in Federal Judge Grubb's opinion indicating that some TVA activities are unconstitutional.

Subsequently, A. C. Garber, chairman of the committee of stockholders who instigated the suits resulting in Judge Grubb's opinion, made public a statement denying that the private power industry had any connection whatever with the suit by the preferred stockholders and alleging that the action was taken independently by organized security holders, whose interests would be destroyed if the TVA program were carried out.

With the doubt of constitutionality thus cast upon the TVA projects by a Federal judge, following a similar opinion by two recognized constitutional authorities—Newton D. Baker and former Representative James N. Beck of Pennsylvania—Mr. Mc-

Carter, in a prepared memorial to the President (subsequently made public to the press with the President's permission) proposed that the Federal government cooperate with the private electric industry in taking action to speed a final determination of the constitutional question by the U. S. Supreme Court. Mr. McCarter took the position that the Federal government, by reason of its important commitments to a hydro power construction, should be just as interested in clearing up the legality of its own position as the privately owned electric industry. What was generally regarded as an answer to Mr. McCarter's proposal was given shortly after in a statement by Chairman Frank R. McNinch, of the Federal Power Commission, said by some to have been speaking for the administration.

Chairman McNinch flouted the idea that the Federal government would join in any actions seeking to cast a doubt as to the legality of its own policies. He stated that "in all the history of the American government no parallel for such a proposal can be found." It was subsequently pointed out by Washington observers that the government has on a number of occasions been a willing party to friendly suits to test the legality of laws and transactions, and, in some cases, has even urged court interpretation to clarify particular situations.

It was recalled that Congress itself has recognized the propriety of somewhat similar action by passing the Declaratory Judgment Act at the last session of Congress, under which Federal district courts may decide matters of questionable legality without undue delay.

That the President was not supposed to join in a truce with the private power industry at this time was seen by the President's subsequent actions in personally interesting himself in the New York city dispute over electric rates for municipal lighting. It was reported that the White House had arranged for a conference between the President and Mayor La Guardia of New York city on this subject, which involved the building of municipal plants for city service in New York. The President also let it be known that he plans to initiate action looking toward lower electric rates for Federal government properties throughout the country.

## Other Power Projects

IN addition to the National Resources Board report mentioned above, discussion of oth-

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er Federal and local power projects occurred in Washington during the week of December 17th. Senator Norris (R.) of Nebraska revived discussion of his scheme (dropped the last session of Congress) for a Missouri Valley Authority.

The plan will be to make Fort Peck dam—already authorized—the nucleus of another TVA. Representative Disney of Oklahoma likewise announced that he will reintroduce his bill for the creation of the Arkansas, Red, and White Rivers Basin Commission, also similar to the TVA plan. In Nebraska, two power districts which received PWA loan-grants of nearly 15 million dollars were considering plans to link the Platte and Loup developments, for which another 2½ millions of Federal money may be sought.

The new PWA allotment for the Caballo dam in New Mexico gave rise to hopes in that section for a duplication of the TVA experiment along the Rio Grande river.

Texans in Washington were hoping for favorable reception of pleas for 50 millions of Federal funds to develop the Brazos river project recently approved by the December legislature—one of the sections recommended by the National Resources Board for further study. However, news came that the Pacific Northwest Regional Planning Conference had refused to endorse a Columbia Valley Authority to include Grand Coulee and Bonneville dams. Instead, it was reported that efforts would be directed toward inducing the Federal government to undertake the construction of the "high dam" at Grand Coulee, making the project primarily one of irrigation and adding more than a million productive acres to existing farm lands.

While local conflict of opinion as to the proper set-up of the administration of the Federal power projects in the Northwest thus existed, it became known that TVA Power Director Lilienthal will visit the section early this spring to study the situation.

### National Resources Board Reports

ON December 17th there was made public the report to the President of the National Resources Board, suggesting, among other things, a permanent board to develop natural resources and power. Although it contained a chapter on hydroelectric power, it discussed in a general way the reasons for and problems surrounding exploitation of the national water-power resources whether by the Federal government or by private industry.

The report left the main discussion of power policies to the anticipated report of the National Power Policy Committee, appointed last summer by the President. The National Resources Board suggested, however, intense study of seventeen watersheds throughout the

country, most of which include possible power projects. The report also outlined a program for long-time planning which, if adopted in full, would entail expenditures ultimately aggregating the total of 105 billions of dollars.

### Students Survey Power Consumption

REPORTS reaching Washington in late December from widely separated points, to the effect that the Federal Power Commission has been sponsoring a survey of gas and electric rates by college students proved upon investigation in Washington to be at variance with the facts.

Students in 84 colleges throughout the country, however, who are being aided by the Federal Emergency Relief Administration (FERA), have, it became known, been assigned to make a survey of appliances particularly in homes where gas and electric ranges have been interchanged. The information is sought by the Federal Power Commission in a study of load factors and their bearing upon electric rates. The commission, it was said, is not directly interested in gas rates.

### Inland Water Plan

IMPROVEMENT of Mississippi navigation from St. Paul to the Gulf and development of the St. Lawrence seaway as two of the War Department's chief objectives in "a grand plan for bringing to the interior of the continent the benefit of cheap water transportation," Secretary of War Dern declared in the report on civil activities of army engineers, submitted to the President December 18th.

The report includes fifteen Minnesota navigation, power, and flood control projects on the Mississippi, the Red river, Northern Minnesota boundary waters, and the Lake Superior watershed in a list of 1,600 water developments involving 8 billion dollars for which army engineers have made studies and completed plans.

### Urge Gas Probe

SENATOR Nye (R.) of North Dakota announced that he will seek investigation of the natural gas industry, declaring that that industry is as deserving of investigation as the power industry was represented to be when the Senate considered the Walsh resolution in 1928. The Senator suggested that an investigation of natural gas would result in a substantial reduction in the national gas bill.

The immediate basis of the North Dakota Senator's announcement appeared to be a

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brief filed by Mr. Frank Parish in a Delaware court proceeding, involving the Missouri-Kansas Pipe Line Company, in which allegations were made that attracted Senator Nye's attention. Behind the Senator's statement was seen, as a part of the background, the report by the Federal Trade Commission last August on its power utility investigation, tending to show that the major part of the natural gas and pipe-line industry is concentrated into the hands of four groups. It was rumored in Washington that Senator Nye himself might seek to conduct such an inquiry if authorized.

### Single Telegraph System

**T**HE Federal Communications Commission has decided to recommend legislation permitting creation of a single telegraph system in the United States, according to a Universal Service dispatch from Washington, December 18th.

Recent hearings failed to convince the members that any merger in the telegraph field should be compulsory. They are convinced that if such mergers are permitted by law, the major units—Western Union and Postal Telegraph, and the R.C.A.—will voluntarily combine.

The tentative draft to be presented to Congress will provide adequate protection to labor against wholesale dismissals following consolidations.

Though the full commission has not yet

passed upon the provision to safeguard workers, members of the telephone division, which held extended merger hearings, are reported in agreement that the nation's roll of unemployed shall not be further lengthened by any action they will urge.

### Private Tax on Public Plants

**P**PRIVATE utilities, prior to 1929, conducted a mass propaganda campaign to defeat large Federal and scores of municipally owned power projects, according to the recent Federal Trade Commission report to the Senate relating the history of the privately owned power industry during the era prior to 1929 as revealed by the commission's investigation.

The commission charged that at that time electric and gas companies attempted to defeat the Muscle Shoals and Boulder dam projects, the Ontario Hydro Electric plant and many local plants. Municipal projects which were reported to have been subjected to adverse propaganda were the publicly owned power plants of Seattle; Cleveland; Los Angeles; Springfield, Illinois; and Ponca City, Oklahoma.

The report also alleged that the utilities spent thousands of dollars in California between 1922 and 1926 in an effort to defeat water and power legislation and in Washington state between 1924 and 1930 opposing similar measures.

## Alabama

### Decatur Lines for TVA

**E**NGINEERS December 14th were under instructions from the Decatur city council to proceed with construction of a municipal electric distribution system to obtain power for consumers direct from the Tennessee Valley Authority.

This is the first of the 14 municipalities in which the Tennessee Valley Authority proposed to purchase existing systems from the

Alabama Power Company, and sale of which now is the subject of litigation in U. S. District Courts brought by a group of preferred stockholders, to take such action.

The new municipal system will be constructed with funds granted by the Public Works Administration for the purpose, a loan contract for which already has been executed. Engineers estimate the new municipal system, modern in every respect, will cost \$268,000.

## Arizona

### Verde River Law Enacted

**T**HE Verde river irrigation and power district water right extension measure has become a law without the signature of Governor B. B. Moer, according to the *Phoenix Gazette*.

The governor transmitted the law to Sec-

retary of State James H. Kerby and accompanied it with a letter stating that there was a question in his mind as to whether the Verde came within the scope of his call convening the special session.

The reenacted municipalities, public works, and cities and towns acts were signed by the chief executive.

## PUBLIC UTILITIES FORTNIGHTLY

### Florida

#### "Free Gas"

THE Florida Public Service Company and its affiliate, The Sanford Gas Company, recently inaugurated new gas rate procedures incorporating what the company terms the "free gas" use principle, according to the *American Gas Association's Information Service*. Under the new schedule, customers whose consumption of gas for the current month does not represent a decrease over the corresponding month of last year, may use

certain quantities of additional gas without charge. If, for example, a bill averaged \$4 a month for a consumption of 2,000 cubic feet, the customer may use an extra 500 cubic feet at no additional cost. Other ratios are shown in the table.

The new rate schedule announced by the Florida Company is modeled upon the Immediate and Objective Rate Plan used by the Alabama Power Company, Georgia Power Company, and the Tennessee Electric Power Company in their electric rates.

### Georgia

#### Gas Rates Reduced

DOMESTIC gas rates throughout 21 of the 22 cities of Georgia using gas were reduced by orders of the Georgia commission from 9 to 20 per cent. The commission estimated that the cuts would save gas consumers on the basis of present consumption approximately \$353,058. The percentage of reduction in the charge in the various towns are as follows: Americus, 14½ per cent, Athens, 16½ per cent, Augusta, 15½ per cent, Brunswick, 10 per cent, Gainesville, 11½ per cent, Valdosta, 9 per cent, Waycross, 15 per cent, Atlanta, 10½ per cent, Columbus, 20 per cent, Griffin, 13½ per cent, Macon, 17½ per cent, Rome, 13½ per cent, Savannah, 16½ per cent, Georgia Natural Gas Corporation (serving Forsyth, Cedartown, Carrollton, Calhoun, Newnan, Thomaston, Milledgeville, Rockmart, and Barnesville 9 per cent. All of the gas companies opposed reductions, saying their operations and income did not

justify a gas rate reduction at the present time.

#### Delay Power Rate Probe

THE Georgia Public Service Commission has postponed its projected inquiry into commercial power rates of public utilities operating within the state until January 21st at the request of the companies.

The board announced that it would hear evidence from the Georgia Power Company on January 21st and from the Savannah Light and Power Company January 24th.

Vice Chairman George Goode, of the commission, said that the board desired more to adjust rates than to lower them and called on the utilities for customer analyses which officials of the companies said would be produced.

There are about 40,000 stores, shops, offices, and the like served as commercial customers of the power companies.

### Illinois

#### Utilities Exempt from Sales Tax

THE Illinois Supreme Court ruled on December 20th that utilities, either privately or municipally owned or operated, need not pay the 2 per cent state retail occupa-

tional tax (popularly known as the sales tax) on their sales of electricity, gas, or water. The ruling according to members of the state department of finance will cost the state approximately \$4,800,000 a year in revenue which had been anticipated.

### Kansas

#### Utility Rates Reduced

A REDUCTION in natural gas rates at Anthony was approved recently by the corporation commission, according to *The Topeka State Journal*. The Western Natural Gas Company, which serves the town of An-

thony, applied for the reduction in gas rates.

The Southwestern Bell Telephone Company was granted permission to reduce from \$1 to 50 cents the charge for restoration of service discontinued for nonpayment of bills in cities where there are 2,000 or less telephone customers.



## PUBLIC UTILITIES FORTNIGHTLY

### Kentucky

#### City Tax on Utilities

**I**N an opinion involving several hundred thousand dollars of taxes which the city of Louisville seeks to collect from the Louisville Gas and Electric Company, the court of appeals has held that the city is not permitted to collect taxes on its own assessment of the company's tangible property, but may levy on its assessment of the company's franchise value, according to *The Courier-Journal*.

The opinion, written by Judge Richard Priest Dietzman and concurred in by the whole court, overruled in part and sustained in part the city's motion to dissolve a temporary injunction obtained by the gas company in Jefferson Circuit Court. The circuit court order enjoined the city from collecting city taxes on either assessment made by the city assessor, taking the stand that the right to make the assessments was vested solely in the state tax commission.

### Louisiana

#### Utilities Pay Probe Costs

**T**HE public service commission recently began an investigation into the rates being charged by the Southern Bell Telephone and Telegraph Company, the New Orleans Public Service, Inc., and the Baton Rouge Waterworks Company, and instituted proceedings relative to the gas and electric rates being charged by the Baton Rouge Electric Company, according to *The Times-Picayune*.

The hearings in the Baton Rouge Waterworks and New Orleans Public Service cases were continued until an investigation is made by the commission. The hearing in the telephone case was begun and after several witnesses had testified, was laid over until January 24th. The Baton Rouge Electric Company was cited to appear on December 27th.

Mark Wolfe of New York, who was employed by Huey P. Long in 1921 and 1922 as auditor for the Louisiana Public Service Commission in utility investigations, was employed by Senator Long, acting as counsel for the commission.

Attorneys for the Baton Rouge Waterworks Company agreed to permit a complete examination of their records and to pay up to \$2,000 as the cost of the inquiry and attorneys for the New Orleans Public Service, Inc., agreed to pay expenses up to \$10,000

for the investigation of their own records.

The agreements were made after Senator Long had threatened to call the legislature into special session during the current week to raise the supervision and inspection fee passed against the utilities unless the utilities would agree to pay for the costs without protesting the right of the state to collect it as had been done by the New Orleans Public Service.

#### New Utility Legislation

**A**MONG the numerous bills passed by the recent special session of the legislature drafted under the sponsorship of United States Senator Huey P. Long were the following three measures affecting the utilities: House Bill 20—Increasing the corporation franchise tax from \$1.50 per thousand dollars of capitalization to \$2 per thousand, and dedicating the additional 50-cent increase to Louisiana State University; House Bill 23—Amends the public utilities tax to provide that the state will take a proportion of all business into, out of, or within the state, as in California, instead of merely on the intrastate business as at present; House Bill 34—Placing warehouses under the jurisdiction of the public service commission as to rates, charges, etc., by making them public utilities.

### Michigan

#### Mayor Asks Delay of Rate Increase

**M**AYOR Couzens has requested the Detroit City Gas Company to postpone for sixty days the effective date of its announced increase in rates, according to the *Detroit News*. The increase was scheduled to go into effect January 8th.

Couzens also has asked permission for city

auditors to go through the company's books to ascertain the necessity for the increase.

Pointing out that about two and a half years ago it voluntarily reduced its rates, the company contends increased costs now make the increase in rates necessary. The new rates would result in a 6 cents per month increase for customers whose monthly use is 1,000 cubic feet or less, and 18 cents per month increase for those using 3,000 cubic feet.



## Mississippi

### Jackson Power Plans

THE city council of Jackson on December 18th enacted an ordinance calling for an election January 19th for its suggested authorization of the issuance of \$1,500,000 revenue bonds with which to construct an electric power plant and install a municipal distribution system. At the same time members of the council refused a second compromise reduction of \$163,000 offered by the Mississippi Power and Light Company which now serves the community. The council ordered into effect as of January 3rd a reduction in electric rates of 25 per cent as provided in an ordinance which was enacted about two weeks previous.

### Towns Seek TVA Power

REPRESENTATIVES from 48 north Mississippi municipalities organized preparatory to requesting Tennessee Valley Authority to extend power to the communities at a meeting in Cleveland, Mississippi, on December 18th. One hundred and two mayors and other officials attended the meeting, called by Mayor Milton C. Smith of Greenville. After a session during which the possibilities and advantages of securing Tennessee Valley Authority power were considered, a committee reported with nominations to form the personnel of the new organization that will be known as the Northwest Mississippi Electric Power Association.

## New Mexico

### PWA Aids Power Project

POSSIBILITY of a duplication of the Tennessee Valley Authority on the Rio Grande with cheap hydroelectric power generated at the Elephant Butte dam was indicated recently in the public works allotment of \$100,000 additional for the Caballo dam in New Mexico, according to the *Dallas Morning News*.

"The additional allotment," the PWA said, "is to make provision for raising the Caballo dam at a later date to make possible the de-

velopment of power at the Elephant Butte dam, which is above the Caballo dam."

### Seek Appraisals Fund

THE state tax commission recently indicated it would ask the legislature for an appropriation to appraise 94 public utilities in the state, according to *The El Paso Times*. It was expected that several thousands of dollars would be added to taxable valuations of the companies should the appraisals be made.

## New York

### City Power Plant Planned

FEDERAL funds for the construction of a power plant by New York city to supply electric current to municipal and Federal buildings were tentatively promised to Mayor La Guardia in Washington, December 19th, as he carried to the White House his controversy with public utilities, which grew out of the refusal of the city administration to accept and approve bids submitted by private electric utilities for the supplying of service to the city for street lighting and other municipal purposes. The reason for the rejection of the bids was said to be because rates quoted therein were "exorbitant." After his conference with the President, Mayor La Guardia conferred with Secretary of Interior Ickes with respect to a PWA loan for construction of a city-owned plant, stating that if he can get the money the electric plant can

be put into operation by the spring of 1936.

R. E. Backenhus, public works officer of the New York Naval District who accompanied Mayor La Guardia, said that the Federal government will submit a plan for co-operation with the city in providing for the power set-up and will cooperate closely in an effort to put through the project. Legal experts in New York and Washington, however, raised the question as to the legality of any attempt on the part of the city to construct or operate a municipal power plant or issue bonds for such purposes without a referendum. Subsequently Mayor La Guardia admitted that the city might confine the operations of the proposed plant to serving the city and possibly the Federal government. This could exclude plans for electric service to the private power consumers of the city of New York, as has been previously reported.

## PUBLIC UTILITIES FORTNIGHTLY

# North Carolina

### Utility Reduces Rates

**V**OLUNTARY reductions in rates to bring an estimated saving of \$34,641 annually to customers of the Durham Public Service Company have been announced by Stanley Winborne, state utilities commissioner.

Domestic consumers will save \$11,641 annually under the company's new residential rate, which is lower than the recently adopted flat rate of the Carolina Power and Light Company, but higher than that company's inducement rate. The Durham firm has approximately 8,000 domestic consumers.

Commercial consumers will save \$23,000 annually under the new rate, which will become effective on January 1st, Mr. Winborne

said. There are approximately 1,500 commercial customers of the Durham Company, which serves only Durham and its suburbs, exclusive of the Duke University area, served by the Duke Power Company.

The reductions were secured following a series of conferences, according to Commissioner Winborne, who also said that they had been accepted by the commission "without prejudice until further investigation."

Two years ago the company made substantial reductions in its low bracket rates. Under the new reductions, savings to consumers will begin at 20 kilowatt hours, the old 8 cents per kilowatt hour for consumption under that figure remaining in effect in the new schedule.

# Ohio

### Raises Utility Excise Tax

**G**OVERNOR George White signed a sales tax measure December 13th, by which a utilities' excise increase is expected to bring in \$3,000,000 of the \$70,500,000 revenues sought for schools and local governments in 1935. The estimated income from the utility tax hike is distributed for county welfare purposes according to the *Columbus Evening Dispatch*.

Although the tax measures are operative under the legislative mandate on January 1, 1935, the sales tax probably could not be collected before January 15th, according to the state tax commission.

### Phone Rate Schedule Filed

**U**NDER protest, the Ohio Bell Telephone Company recently submitted to the public utilities commission a flat rate schedule for subscribers in Cleveland, according to the *Columbus Evening Dispatch*.

The new schedule, which would supplant the present measured service rates, will be used by the commission only in considering the northern Ohio city's rate structure.

As part of its work in arriving at a fair rate for the company, which has opposed any reduction, the commission will set a new schedule to supplant increased rates now in effect which have been collected under bond since 1925.

The commission will attempt to determine the advisability of substituting flat rates for measured service.

The company submitted a brief in which it called attention to the fact that the commission had refused to allow it to present evidence as to the value of its Cleveland property, which it contends is violation of constitutional provisions.

The rates filed under protest provide for the following scale: One-party line, \$5.25 per month; two-party, \$4 per month; extension, 85 cents each. Flat rates for four-party lines are not provided, but instead the charge would be \$2.85 for 60 calls, with a charge of 4½ cents additional for each call in excess of that number.

### Electric Rate Cuts

**A** 20 PER CENT reduction in light and power rates for customers of the Westerville municipal light plant was scheduled to go into effect January 1st.

Reduction is possible because of the new rate established by the Columbus Railway, Power & Light Company, from which concern the Westerville plant buys its current.

Electric light rates in Bellefontaine and rural districts have been substantially cut, for the third time in three years, the new rates to be effective February 1st. The electric light plant is municipally owned, as are the water and gas plants.

## Oklahoma

### Governor Questions Municipal Ownership

**E** W. MARLAND, governor-elect, took under consideration a far-reaching proposal to open the way for extensive municipal ownership of utilities in small cities and towns of Oklahoma. Representatives of the Oklahoma Municipal League laid before him the proposal for a constitutional amendment authorizing issuance of municipal revenue bonds with no provision for mandatory requirements for profits to be placed in the sinking fund. Marland referred the proposal, with four other points in the league's eight-point legislative program, to his unofficial committee on revenue and taxation for study.

The proposal is the attack of smaller municipalities upon utility rates in many cities and towns of the state. However, commenting upon his proposed amendment Marland pointed out that notwithstanding the fact that the willingness of the Federal government to make a large grant in such conditions and allow the machinery companies to sell equipment on long terms made it easy for the municipalities to undertake building of plants at this time, such construction would destroy taxable property. Moreover, it was pointed out, such a plan would destroy the investment of a great many small investors who had paid in to build the industries at a time when cities were struggling and needed the service and at the time when utilities risked capital in building the plants.

## Oregon

### Buys Utility for \$10

**A** NNOUNCEMENT of the sale of the Coos Bay Gas Company, a \$246,450 concern, to B. S. Pedersen of Marshfield for \$10 was made recently, according to *The Morning Oregonian*. The sale has been confirmed at Salem by Charles M. Thomas, public utilities commissioner.

The new manager of the company announced that tentative plans for improvement of the facilities of the concern costing \$15,000 are expected to be carried out soon.

Commissioner Thomas at first questioned the \$10 purchase price, but upon investigation found it correct. The company had lost \$8,930.85 last year and could not continue under present circumstances.

## Pennsylvania

### More Utilities Cut Rates

**T**wo additional public utility companies have filed reduced tariff schedules with the public service commission, according to the *Philadelphia Record*.

At the same time, eleven other companies which previously had announced their intention of reducing rates, filed new tariffs. The two new companies are the West Penn Power Company, which serves fifteen counties in the western section of the state, and the Moscow Water Company, which serves Moscow and Lackawanna counties.

The public service commission December 12th sent letters to fourteen utilities ordering them to cut rates or show why they should not do so.

The concerns were given until January 15th to reply. They include electric, water, gas, and telephone companies.

The action is in line with the commission's policy to restrict utilities' earnings to 6 per cent annually on their investment.

The commission last October requested fifty utilities to reduce rates or show why they should not be reduced. Nineteen have responded by cutting rates. Negotiations with the others are under way.

An ordinance reducing rates on electricity approximately 10½ per cent in Tarentum, which has its own light plant, was before the borough council recently, according to a statement in the *Pittsburgh Sun-Telegraph*. The present electric rate is \$6 for 162 kilowatts.

## Utah

### Orders New Franchise Probe

**A** FURTHER investigation of the franchise of the Mountain States Telephone and

Telegraph Company was ordered by the Ogden city commission recently, according to *The Deseret News*.

A previous investigation related to the

## PUBLIC UTILITIES FORTNIGHTLY

company's franchise was instituted for the purpose of determining why the telephone company discontinued a service through which a subscriber could have a telephone

with a limit of 20 out-going calls for \$1.

The matter was referred to the city attorney, but the investigation, it is said, had never been made.

## West Virginia

### Challenges Federal Authority

**C**HALLENGING the constitutionality of the Federal Water Power Act in so far as it attempts to give the Federal Power Commission jurisdiction over non-navigable streams, the state of West Virginia recently intervened in the government's suit to require Federal licensing of the New river hydroelectric project.

Attorney General Homer A. Holt, according to *The Charleston Gazette*, said in the state's petition that the Federal government "has no right, power, or authority under the Constitution of the United States to supervise, regulate, or control or in any manner to interfere with the construction, maintenance, or operation" of the Hawk's Nest project in Fayette county.

The government filed suit June 11th to require the Electro-Metallurgical Company, the New-Kanawha Power Company, and the Union Carbide and Carbon Company of New York to obtain a Federal license for the Hawk's Nest project. It asks an injunction halting construction until a Federal permit is obtained, asserting no government agency authorized the project.

The defendant companies deny the govern-

ment's claim that the New river is navigable but assert it is non-navigable, that the government has no control over it, and attack the constitutionality of the water power act in attempting to give the power commission jurisdiction over the stream.

### Holt Urges \$13,000,000 Project

**T**HE construction of a \$13,000,000 dam in the Bluestone river where it empties into the New river near Hinton is recommended by United States Senator-elect Rush D. Holt, according to *The Charleston Gazette*.

Holt said the recommendation was made to the President's National Resources Board at Washington and that he is hopeful of authority being granted for it as a part of the Federal government's flood control and power program.

The Senator-elect said he will press for action on the proposal.

Holt said he recommended to Morris L. Cooke, chairman of the Resources Board, a general survey of the state's water systems.

A similar flood control project, to cost nearly \$12,000,000, already is under construction in the Tygart river near Grafton.

## Wisconsin

### Basis for Rates

**T**HE state public service commission served notice on utilities of Wisconsin that it will make the value of service rendered an element in the determination of utility rates. In arguments before Judge August C. Hoppmann in Dane County Circuit Court on December 24th on the request of the City Water Company of Marinette for an injunction to prevent a rate reduction order by the commission from going into effect, Alvin C. Reis, commission chief counsel, revealed the commission's intention. "The company has not a ghost of a chance of winning this case on a fundamental issue which will carry this case to the U. S. Supreme Court—the value of service," Mr. Reis declared. Judge Hopp-

mann took the rate case under advisement.

### Power District Plan under Way

**T**HE first attempt to create a power district under the 1931 La Follette public utility law has been made by Polk and Burnett counties.

Town and village officials have voted to create the inter-city municipal power district. County clerks will forward the resolution to the state public service commission which, within ninety days, must make recommendations on the feasibility of the proposed district. Final decision on establishment of the district will be made by voters at an election to be called by the county clerks.

# The Latest Utility Rulings

## Regulatory Commissions Necessarily Possess and Must Exercise Some Judicial Powers

THE rule is well established in most jurisdictions that a public service commission is an administrative body, rather than a judicial tribunal. Therefore, its jurisdiction to determine questions of law is limited. This does not mean, however, according to a recent ruling by the superior court of Pennsylvania, that a commission cannot or should not determine questions of a legal nature which necessarily arise as an incident to regulation.

The Pennsylvania commission had granted to a county authority to operate a motor carrier service to a county park. The commission ruled that it must consider only the question of public convenience and necessity, leaving for the court any question of the power of a county to operate motor vehicles as a carrier. The court reversed the commission decision, holding that the county had no such power.

As to the function of the commission the court pointed out that such a body has jurisdiction to determine whether

corporations have the right to do, or not to do, the thing for which the commission's approval is sought. Such cases were distinguished from cases in which a commission makes a preliminary determination as to the necessity for an act, following which an application must be made to a court as in the case of eminent domain proceedings. Trexler, P. J., said in part:

The commission having jurisdiction to determine whether a corporation has the right to do or not to do a thing for which the commission's approval is sought, orderly procedure requires that the commission pass upon that phase of the controversy before the courts adjudge it. The obvious reason for this is stated in *St. Clair v. Tamaqua & P. Electric R. Co.* 259 Pa. 462, 468, P.U.R.1918D, 229, 103 Atl. 287: "Otherwise different phases of the same case might be pending before the commission and the court at one time, which would cause endless confusion."

*Pittsburgh R. Co. et al. v. Pennsylvania Pub. Service Commission et al.* (No. 452).



## Communications Commission Rules Companies Must Sustain Depreciation Rate

THE new Federal Communications Commission has reversed the rule in effect under the Interstate Commerce Commission relating to depreciation rates of telephone companies. The companies must now sustain the reasonableness of the rates they adopt.

The Interstate Commerce Commission had adopted the view that the depreciation rates of the companies should be considered as correct. State commissions opposed this attitude of the Federal agency, and the recent decision

of the Communications Commission is hailed as a victory for the state commissions.

The order of the newly created commission provides that the estimates of composite percentage rates submitted by telephone companies to the state commissions and to the Communications Commission are for the information of the several commissions, but "shall not be deemed to be *prima facie* correct."

People's Counsel William A. Roberts, in a memorandum to the District of

## PUBLIC UTILITIES FORTNIGHTLY

Columbia Public Utilities Commission, states that the order is of great importance because it relieves "the overshadowing influence of the Interstate Commerce Commission's orders as to depreciation, and places the burden of proving the correctness of depreciation rates, in so far as they affect local regulation, upon the companies rather than on the state commission." He points out that in the District of Columbia, where a study of depreciation rates has

been under way for approximately six months, this is of the greatest importance as it leaves the local commission with a free hand to act in fixing reasonable depreciation rates and preventing unreasonable charges for this purpose.

He states that even more important is the coöperative and responsible attitude shown by the Communications Commission in this the first of its orders on the subject.



### Capitalization of Intangible Values Is Not Permitted

THE Pennsylvania commission, in authorizing the issue and sale of common stock by a bus line corporation to acquire equipment, has ruled that securities cannot be issued to capitalize franchises, going concern value, and good will attached to bus routes. The commission cited a section of the Public Service Company Law providing in part that it shall be unlawful for any public service company "to capitalize its franchises, rights, powers, privileges, or right to own and operate or enjoy any such franchises, rights, powers, or privileges, in excess of the amount paid to the commonwealth or any political

subdivision thereof as the consideration for the grant thereof." The commission then stated:

We think that this section of the act directly prohibits the capitalization of "franchises, going concern value, and good will," unsupported by convincing proof of past expenditures as they are in this case. But aside from the statutory prohibition just quoted, we do not favor the capitalization of any franchise or other intangible at a figure in excess of actual cost to the first user, regardless of how many hands it may pass through, or how much may be paid for it by various subsequent owners.

*Re Billig Bus Line, Inc. (Securities Docket No. 62).*



### Fair Value Does Not Mean Special Value

CONGRESS last January authorized the acquisition by the Capital Transit Company of the capital stock of the Washington Rapid Transit Company at the fair value thereof and on such terms as might be accepted by the owners of such shares of stock and might be approved by the public utilities commission. The commission has dismissed an application for such approval on the ground that the applicant proposed to show a special value to the purchaser rather than the fair value. The commission said:

As stated in its decision on the motion, it is the opinion of the commission that the phrase "at the fair value thereof," appearing in said paragraph eighth of the unifica-

tion agreement approved by Congress in the joint resolution does not mean the peculiar, special, or particular value of the capital stock to the Capital Transit Co.

This view is supported by decisions of the United States Supreme Court and other Federal courts. The following extract from the decision in the case of *Atwater v. Wheeling & L. E. R. Co.* (1932) 56 F. (2d) 720, 723, is peculiarly pertinent: "Further, in determining fair and reasonable market value, such special, particular, or peculiar value to a prospective purchaser only is not to be considered. Citing *United States v. Chandler-Dunbar Water Power Co.* (1913) 229 U. S. 53, 79, 81, 57 L. ed. 1063, 33 S. Ct. 667, and *United States v. Boston, Cape Cod & N. Y. Canal Co.* (1921; C. C. A.) 271 Fed. 877, 893."

*Re Capital Transit Co. (Order No. 1289, Formal Case No. 253).*



## PUBLIC UTILITIES FORTNIGHTLY

### Commission Rate Jurisdiction in Home-rule City Denied by Court

A COURT ruling sustains the action of the Colorado commission in dismissing a rate complaint against the Public Service Company of Colorado on the ground that the commission had no jurisdiction over rates charged by utilities within charter cities such as Denver. An appeal will be taken.

Although he has ruled in favor of the commission, Judge Dunklee says in

part "that the sole issue raised herein is one entirely for the supreme court." He suggests that "new and changed conditions" might alter previous opinions of the supreme court on the question, and to facilitate the taking of the case to the higher court, he has ordered that a motion for a new trial be dispensed with. *Public Service Co. v. Public Utilities Commission.*



### Oklahoma Telephone Rates Upheld

FIRST round for lower telephone rates in Oklahoma was lost recently by an order of the majority of the corporation commission denying the application for a reduction in Tulsa. The case, which involves the Southwestern Bell Telephone Company, is one division of a general investigation that also involves the rates in Muskogee, long-distance toll rates charged throughout the state, and charges on hand sets. The

commission declared the earnings on investments in Tulsa are much less than an amount sufficient to produce a return of 6 per cent.

"The earnings, as founded upon any hypothesis of value, are less than 6 per cent before payment of income taxes and in such cases the commission is entirely justified in refusing to interfere," the order stated. *Re Southwestern Bell Telephone Co.*



### Proposed Rate Increase to Balance Tax Boost Suspended

THE New York commission on December 19th denied applications of fourteen companies controlled by the Consolidated Gas Company for permission to put into effect on or about January 1st new rate schedules which would place upon consumers of electricity, gas, and steam the burden of the city's new tax of 3 per cent on gross receipts of public utility companies.

In an unanimous opinion the commission suspended for thirty days from January 14th the effective date of the new charges and ordered public hearings on the applications to begin on January 9th. New rates which were filed December 14th would have automatically become effective on January

14th if they had not been suspended.

The proposed new charges designed to recompense the companies for an estimated increase of \$14,000,000 in operating charges due to the city's 3 per cent tax may as a consequence not become effective, if at all, earlier than next November. The state law gives the commission power to continue the original thirty days' suspension for an additional 120-day term should public hearings still be in progress at the end of the 30-day respite. An additional suspension, not to exceed six months, may be imposed by the commission should the proceeding remain unfinished when the 120-day period expires. *Re Consolidated Gas Co.*

